POLITICAL CAPITAL: REAL-TIME ELECTORAL PROBABILITIES AND THE VALUE OF CORPORATE POLITICAL ALIGNMENT*

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Abstract

We examine how real-time fluctuations in U.S. presidential election probabilities affect stock valuations of firms with distinct partisan affiliations. Using high-frequency data from blockchain-based prediction markets (PolyMarket and PredictIt) and corporate political contribution records from OpenSecrets during the 2024 campaign, we implement a local projection framework to identify the impact of electoral probability shifts. Our results show that increases in Donald Trump's election probability generate statistically significant positive differential returns for Republican-affiliated firms relative to Democratic-leaning counterparts. These effects exhibit a dose-response relationship with the degree of partisan alignment, emerge within approximately 100 minutes of probability shifts, and persist for several weeks. The documented pattern remains robust across multiple temporal aggregations (5-minute, hourly, and daily), alternative prediction market data sources, and various econometric specifications. By identifying how corporate-political connections mediate market responses to electoral information, this research provides novel empirical evidence on the transmission mechanism through which political uncertainty affects asset pricing dynamics in an era of heightened polarization.

Keywords: Election Prediction Markets; Corporate Political Alignment; High-Frequency Returns; Political Risk; Partisan Networks; Electoral Uncertainty

JEL Classifications: D72; G12; G14; G38; P16

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1 Introduction

The relationship between political events and financial markets has long captivated researchers, yet a critical gap remains in our understanding of how real-time electoral probability shifts differentially affect firms based on their partisan affiliations. While extensive literature documents aggregate market reactions to election outcomes, the transmission mechanisms through which continuous updates in candidates' electoral prospects influence cross-sectional asset prices remain largely unexplored. This study addresses this gap by examining how high-frequency changes in U.S. presidential election odds affect stock valuations of firms with distinct political leanings, providing causal evidence on the transmission of political information to financial markets.

Our empirical strategy combines two novel data sources: high-frequency electoral probability data from PolyMarket—a blockchain-based prediction market with over $3.6 billion in trading volume for the 2024 presidential election contracts—and comprehensive corporate political contribution records from OpenSecrets during the 2024 presidential campaign. This approach offers several methodological advantages over traditional event studies. First, PolyMarket's continuous, decentralized market structure provides manipulation-resistant, real-time electoral probability updates that enable precise identification of political shocks. Second, linking these probabilities to 5-minute, hourly, and daily stock returns allows us to isolate political effects while controlling for industry and market-wide factors. Third, our partisan affiliation measures derived from OpenSecrets' contribution data facilitate granular cross-sectional analysis of how political ties moderate market responses to electoral information.

Implementing a local projection framework with extensive fixed effects, we document that increases in Donald Trump's election probability generate economically and statistically significant differential returns across the partisan spectrum. At the 5-minute frequency, we find that markets require approximately 100 minutes to incorporate political information, after which Republican-affiliated firms experience sustained positive returns. At the hourly frequency, Republican-affiliated firms experience immediate positive returns beginning three hours after a pro-Trump probability shock, with effects peaking at approximately 0.15% around hour 18 before gradually dissipating following a 1 percentage point (pp) probability shock. At the daily frequency, Democrat-affiliated firms exhibit significant negative responses, with a one-percentage-point increase in Trump's winning probability leading to a 0.3% decline in stock prices that becomes statistically significant from day-15 and persists through a two-month horizon.[1] Republican-affiliated firms demonstrate notable resilience against these negative effects, confirming a pronounced partisan differential in market responses. These results scale monotonically with the strength of firms' partisan ties and remain robust to alternative specifications and data sources, including PredictIt prediction market data.

Our analysis makes three primary contributions to the financial economics literature. First, we establish that corporate partisan affiliations significantly moderate how political information affects stock prices, documenting a previously unidentified transmission mechanism between continuous electoral probability updates and cross-sectional equity returns. Second, we advance research on corporate political activity by demonstrating that intangible partisan ties, formed through campaign contributions, substantially influence firm valuations as electoral prospects shift.[2] Our high-frequency approach reveals that markets rapidly price

[1] A 1 pp probability shock is nearly a 1 standard deviation shock at the daily frequency.

[2] Using corporate campaign contributions reported by OpenSecrets, we classify firms as Democrat-leaning or Republican-leaning.

these connections into valuations, with effects visible within hours and persisting for months. Third, we contribute to the literature on prediction markets by illustrating how their signals are efficiently incorporated into stock prices, particularly for firms with strong political alignments.

These findings highlight the growing economic relevance of corporate-political connections amid rising partisan polarization. As political divisions intensify and election cycles increasingly dominate the policy agenda, understanding how partisan affiliations affect firm valuations becomes crucial for investors, corporate managers, and policymakers. By documenting these dynamics, our analysis provides new insights into the micro-foundations of election-driven market volatility and underscores the importance of incorporating real-time political probability signals into asset pricing models. The rest of the paper proceeds as follows: Section 2 reviews related literature, Section 3 describes the data, Section 4 presents the methodology, Section 5 reports and discusses our findings, and Section 6 concludes.

2 Related Literature

A substantial body of research has examined the interplay between political events and financial markets, with particular emphasis on how electoral outcomes and policy changes influence asset prices and economic returns. Our study builds upon and extends three primary strands of literature: (1) partisan effects in financial markets, (2) prediction markets and real-time political information, and (3) firm-level political connections.

Early research primarily employed long-window event studies, comparing stock returns across different presidential administrations to identify systematic patterns. Santa-Clara and Valkanov (2003) documented the now-famous "presidential puzzle," revealing significantly higher U.S. equity returns under Democratic administrations—a finding subsequently corroborated across various historical samples (e.g., Huang, 1985; Hensel and Ziemba, 1995; Pástor and Veronesi, 2020). While these broad analyses establish that partisan differences correlate with market valuations, they often struggle to disentangle whether such differences stem from genuine policy impacts or from endogenously shifting expectations as political fortunes evolve (Snowberg et al., 2007; Baker et al., 2020).

More recent research has pursued direct identification strategies by focusing on shorter-window event analyses surrounding unexpected shifts in political prospects. Snowberg et al. (2007) exploit real-time fluctuations in U.S. presidential race outcomes by combining intraday trading data with prediction-market odds, demonstrating that sudden changes in the perceived winner correspond with immediate movements in equity and bond prices. Similarly, Abolghasemi and Dimitrov (2020) employ political prediction market data to connect election outcomes to global equity performance within vector autoregression frameworks. The broader literature has established that financial markets efficiently incorporate real-time signals from election polls (Snowberg et al., 2013; Funke et al., 2023; Flynn and Tarkom, 2025), though significant mispricings can momentarily arise around surprising or highly-polarized events (Pástor and Veronesi, 2012, 2020; Chen et al., 2023). In their comprehensive analysis of prediction markets, Snowberg et al. (2013) demonstrate their capacity to accurately forecast economic and political outcomes while rapidly integrating new information. Their research establishes that these markets consistently outperform alternative forecasting methods, rendering them valuable instruments for extracting market expectations about future events.

Within the broader literature on political uncertainty and asset pricing, an emerging strand explores how firm-level heterogeneity moderates responses to political news. Research on corporate political activity documents that campaign contributions and lobbying correlate with subsequent returns and regulatory outcomes (Ansolabehere et al., 2003; Cooper et al., 2010; Ovtchinnikov and Pantaleoni, 2012; Chen et al., 2023). Contemporary empirical evidence suggests that firms strategically cultivate relationships with officeholders (e.g., Faccio, 2006; Goldman et al., 2009; Akey, 2015) to secure preferential treatment—typically manifesting as favorable regulation, bailouts, or government contracts (Faccio et al., 2006; Duchin and Sosyura, 2012). Personal connections to key policymakers have been shown to generate abnormal returns following pivotal appointments (Acemoglu et al., 2016) or political transitions (Fisman, 2001; Fisman et al., 2012). In the United States specifically, event studies such as Jayachandran (2006) and Roberts (1990) highlight the "value" inherent in political ties, while Bertrand et al. (2018) demonstrate how executive-politician interconnectedness can transform corporate investment and employment decisions.

Researchers have also investigated how variations in *firms'* political leanings—frequently inferred from campaign contribution records—translate into cross-sectional variation in stock price responses to elections. Contributions from Cooper et al. (2010), Kim et al. (2012), and Belo et al. (2013) demonstrate that certain industries and politically active firms earn systematically higher returns when their preferred party (e.g., Republicans for defense firms, Democrats for alternative energy) appears likely to win. The existing literature also reveals that intangible networks—such as personal or "social" connections between corporate executives and influential officeholders—further amplify the sensitivity of these firms' valuations to political events (Lee et al., 2014; Kempf and Tsoutsoura, 2024). The potential for entrenchment or regulatory capture through personal ties has been examined in contexts ranging from major executive appointments (Acemoglu et al., 2016) to multiple international settings (Faccio, 2010; Wei et al., 2023). Indeed, these intangible connections can induce board passivity (Hwang and Kim, 2009; Lee et al., 2014) or lead to preferential bailout outcomes (Faccio et al., 2006), thereby establishing tangible links between corporate political alignment and firm performance.

Despite these valuable insights, there remains a significant gap in understanding how *real-time, hourly updates* to candidates' election probabilities translate into *differential stock price effects* for firms with *specific partisan leanings*. The importance of *continuous* electoral-probability signals has been acknowledged by previous researchers (Snowberg et al., 2007, 2013; Abolghasemi and Dimitrov, 2020), yet most analyses concentrate on broad aggregates—such as index returns—rather than cross-firm heterogeneity or intangible "political affiliation" measures. Meanwhile, the corporate political-connections literature documents how alignment with certain politicians can yield higher abnormal returns when those politicians gain office (Jayachandran, 2006; Goldman et al., 2009), but these investigations typically examine single election windows or event studies around discrete political transitions, rather than ongoing shifts in perceived electoral likelihood.

Our research addresses this gap by leveraging hourly data from PolyMarket, a blockchain-based prediction market that provides real-time changes in U.S. presidential election probabilities, alongside granular data on corporate partisan affiliations from OpenSecrets. This novel approach enables us to measure how the *changing odds* of different presidential candidates—particularly Donald Trump versus his Democratic rival—affect daily or even intraday returns, *conditional on each firm's political orientation*. By analyzing both a broader sample of "Republican-leaning" and "Democrat-leaning" firms and focusing on short-horizon win-

dows around major campaign events, we provide a clean identification of how electoral signals reverberate across the cross-section of politically affiliated firms. In doing so, we expand upon existing work on political uncertainty, corporate political ties, and real-time election predictions (Funke et al., 2023; Chen et al., 2023; Baker et al., 2020) and transcend standard event-study approaches by utilizing continuous changes in predicted outcomes.

We provide new evidence that partisan alignment is priced swiftly at high frequency but leaves a persistent footprint in cumulative abnormal returns, highlighting that intangible political ties can shape how private-sector investors respond to electoral news. Our study thereby extends the broader literatures on corporate political activity (Dorobantu et al., 2017; Mellahi et al., 2016) and intangible networks (Fracassi and Tate, 2012; Hwang and Kim, 2009), illuminating a channel through which *partisan identity* and *real-time* political betting markets jointly influence firm-level valuations.

3 Data

Our study integrates multiple high-frequency datasets to examine how electoral probabilities affect stock returns conditional on corporate political affiliations. We focus on the period from January to December 2024, encompassing both primary and general election cycles to capture significant political variability.

3.1 Stock Price Data

We obtain high-frequency stock price data from the NYSE TAQ database, Bloomberg Terminal, and Yahoo Finance for publicly listed U.S. firms. Our primary dependent variable is the logarithm of the closing stock price, denoted $\log(\text{TradeClose}_{it})$, for firm i at time t, which we measure at daily, hourly, and 5-minute frequencies. The final sample includes 71 unique firms with complete data across all sources, yielding 83,562 observations for hourly analysis and 15,754 observations for daily analysis. An average firm in our sample has a daily return of approximately 0.06% with a standard deviation of 1.94%.[3]

3.2 Electoral Probability Data

We derive benchmark electoral forecasts from PolyMarket—a blockchain-based prediction market platform that provides minute-by-minute probability estimates for the 2024 presidential election outcomes.[4] We specifically focus on Donald Trump's predicted probability of victory, with our key political shock variable, ΔProb_t, representing the daily change in this probability.[5] The daily changes in Trump's winning probability range

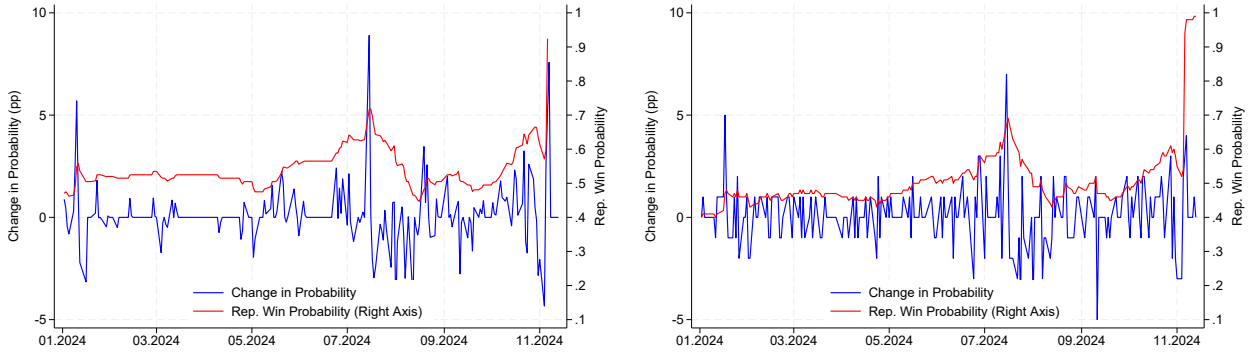
[3] Table A.2 presents the summary statistics for the firms in our sample.

[4] Trading volume on PolyMarket for the 2024 presidential election reached $3,686,335,059, with $1,531,479,285 attributable to Donald Trump contracts and $1,037,039,118 to Kamala Harris contracts.

[5] We use the election prospects of the Republican nominee and Donald Trump interchangeably throughout our analysis, as Trump maintained overwhelming dominance in the Republican primary process. Trump's probability of securing the Republican nomination remained consistently above 92.5% on PolyMarket from January 24, 2024, onward. Our sample period covers the 2024 calendar year primarily for this reason: during this episode, increases in Republican presidential election prospects directly corresponded to the anticipated implementation of Trump's specific policy agenda.

from a minimum of −4.6 to a maximum of 32.7 (on election day), with a standard deviation of approximately 1.1 percentage points.

Figure 1: Political Shock Series by PolyMarket and PredictIt



(a) PolyMarket Shocks

(b) PredictIt Shocks

Notes: This figure plots the series of political shocks derived from PolyMarket and PredictIT, defined as daily percentage-point changes in Donald Trump's predicted probability of winning the 2024 U.S. presidential election. The data from PolyMarket serve as the benchmark political shock variable throughout the analysis.

These prediction markets operate continuously, allowing us to capture real-time market reactions to political developments even outside standard trading hours. Our robustness checks using data from PredictIt, another online prediction market for political and current events, confirm the reliability of our approach. Figure 1 illustrates the daily level and percentage-point changes in Trump's predicted winning probability from both PolyMarket and PredictIt, forming our political shock series.[6]

3.3 Political Affiliation Data

We identify 71 publicly traded firms with sufficient political contribution activity during 2020-2024 (as reported by OpenSecrets) to permit reliable partisan classification and for which complete high-frequency trading data are available throughout our sample period.[7]

Using detailed contribution records from OpenSecrets, we construct two measures of partisan affiliation. Our primary measure employs a binary classification: firms are designated as Republican-leaning ($\text{PartyID}_i = 1$) if the majority of their total contributions from 2020 to 2024 favored Republican candidates or committees, and Democrat-leaning ($\text{PartyID}_i = 0$) otherwise.

To examine whether partisan alignment effects vary with the intensity of political ties, we also construct a continuous affiliation measure:

$$\text{RepublicanAffiliation}_i = \frac{\text{Republican Donations}_i}{\text{Democrat Donations}_i + \text{Republican Donations}_i}$$

[6] We normalize the change on election day to zero due to an outlier movement (nearly 30 percentage points), reflecting that the probability had already reached approximately 70% the prior day. This adjustment ensures that our results are not driven by a single extreme shock.

[7] Table A.2 in the Appendix lists all 71 firms by political affiliation, sector, and contribution intensity.

This ratio ranges from 0 (exclusively Democrat-affiliated) to 1 (exclusively Republican-affiliated), with values near 0.5 indicating balanced bipartisan contributions. As we demonstrate in Section 5.4, this continuous measure allows us to test for dose-response relationships between partisan alignment strength and stock price sensitivity to electoral probabilities.

4 Empirical Analysis

To identify the causal impact of electoral probability changes on stock returns conditional on firms' political affiliations, we employ a local projection framework following Jordà (2005).[8] Local projections are particularly well-suited for our analysis, as they can flexibly capture how political shocks propagate through financial markets over different time horizons.

We specify our baseline model as:

$$\log(\text{TradeClose}_{i,t+h}) - \log(\text{TradeClose}_{i,t}) = \alpha^h + \sum_{k=1}^{14} \phi_k^h \Delta \log(\text{TradeClose}_{i,t-k}) + \beta_1^h \Delta\text{Prob}_t + \beta_2^h \text{PartyID}_i + \beta_3^h (\Delta\text{Prob}_t \times \text{PartyID}_i) + \delta_t^h + \eta_i^h + \epsilon_{i,t+h}^h$$

where $\log(\text{TradeClose}_{i,t+h})$ represents the log closing price of firm i at horizon h, and the dependent variable measures the percentage change in the closing price between time t and $t+h$. $\Delta\log(\text{TradeClose}_{i,t-k})$ captures lagged returns up to 14 days for daily frequency and up to 40 lags for hourly frequency.[9] ΔProb_t represents the change in Trump's election probability, and PartyID_i indicates Republican-leaning firms.

The coefficient β_1^h measures how Democrat-affiliated firms respond to changes in election probabilities at horizon h, while β_3^h captures the differential response of Republican-leaning firms relative to Democrat-leaning ones. Therefore, the sum $\beta_1^h + \beta_3^h$ gives the total response of Republican-affiliated firms to Trump's election probability shocks. We include time fixed effects (δ_t^h) to control for market-wide movements and firm fixed effects (η_i^h) to account for time-invariant firm characteristics. We compute Driscoll-Kraay standard errors to address both cross-sectional and temporal dependence in the error structure.

We estimate the specification separately for each horizon h. At every horizon we obtain three sets of coefficients where β_1^h corresponds to the response of Democrat-affiliated firms (PartyID = 0) to a one-percentage-point change in Trump's winning probability, and β_3^h corresponds to the incremental response of Republican-affiliated firms relative to Democrat-affiliated firms, since the implied response for Republican-affiliated firms equals $\beta_1^h + \beta_3^h$.

Estimating the regression for $h = 0, 1, \ldots$ yields sequences of β_1^h and β_3^h that trace how stock-price reactions evolve over time. Plotting these sequences provides impulse–response functions that are entirely model-free: each horizon is estimated independently, so the dynamic path is not constrained by strong functional-form

[8] This approach offers several advantages over traditional VAR models: it is robust to misspecification, accommodates nonlinearities, and allows for direct estimation of impulse responses at each horizon without imposing dynamic restrictions (Plagborg-Møller and Wolf, 2021).

[9] The results are robust to using different numbers of lags. For daily data, using 21 lags instead of 14, and for hourly data, using 15 lags instead of 40, does not materially change the results.

assumptions. This approach allows us to document both the immediate and persistent effects of electoral probability changes on stock returns conditional on firms' partisan affiliations.

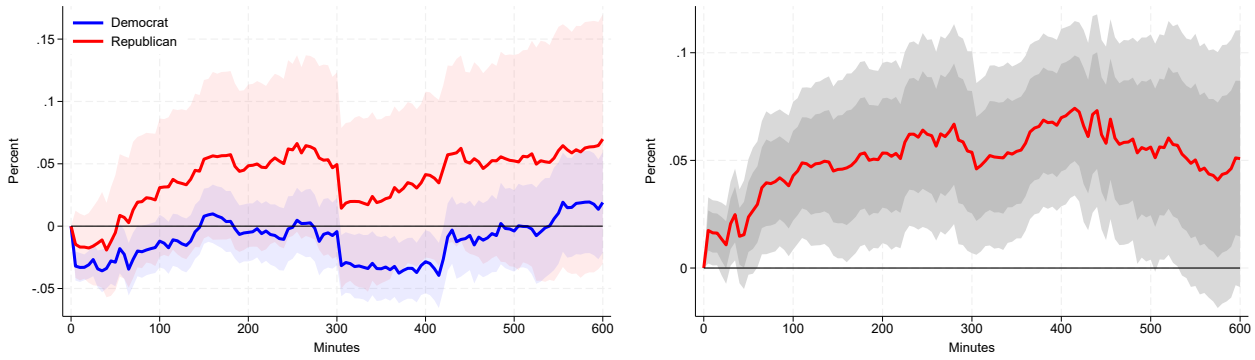
5 Results

This section presents our empirical findings on how changes in presidential election probabilities differentially affect stock returns based on firms' partisan affiliations. We first examine high-frequency responses at 5-minute and hourly intervals to capture immediate market reactions, then extend our analysis to daily frequencies to evaluate persistence and longer-term effects. Throughout our analysis, we focus on the coefficient β_3^h, which captures the differential response of Republican-affiliated firms relative to Democrat-affiliated firms following changes in the Republican candidate's winning probability.

5.1 Results with 5-Minute Frequency

We first examine the highest frequency data available: 5-minute intervals. This granular analysis allows us to precisely identify when markets incorporate political information and whether effects emerge within minutes, hours, or days. Figure 2 presents the stock price responses to a one-percentage-point increase in Donald Trump's winning probability at the 5-minute frequency.

Figure 2: Stock Price Response to 1pp Increase in Republican Winning Probability via PolyMarket (5-Minute Frequency)



(a) Republican vs Democrat Firm Responses **(b)** Differential Response

Notes: This figure presents the impulse response functions of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election, using 5-minute stock price data. Panel (a) shows the cumulative responses ($\beta_1 + \beta_3$) for Republican firms (red line) and Democrat firms (blue line), with 90% confidence intervals. Panel (b) shows the differential response (β_3).

Panel (a) reveals several striking patterns. For the first 100 minutes (approximately 1.5 hours) following a probability shock, Republican-affiliated firms show little response. However, around minute 100, the response begins to turn positive and statistically significant, gradually increasing to approximately 0.05% by minute 300 and continuing to rise through minute 600. Conversely, Democrat-affiliated firms exhibit an initial negative response in the first 50 minutes, which subsequently converges toward zero.

Panel (b) plots the differential effect (β_3), which represents our key coefficient of interest. The differential becomes statistically significant around minute 100 and remains significant through minute 500, peaking around minute 250 with a magnitude of roughly 0.08%. This 100-minute delay suggests that while markets are efficient, they are not instantaneous; algorithmic traders and institutional investors require a brief window to detect probability shifts, assess the underlying catalyst, and execute portfolio rebalancing. Once established, however, the partisan differential persists and accumulates throughout the trading day.

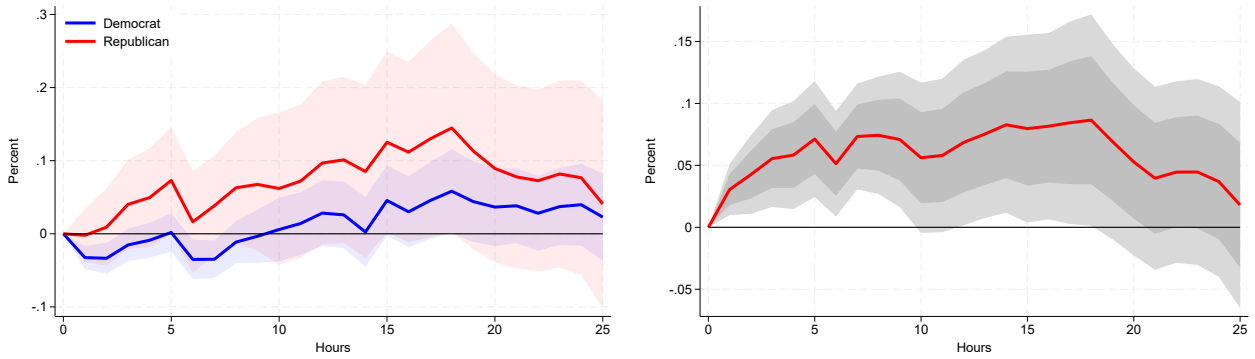
5.2 Results with Hourly Frequency

Figure 3 illustrates how stock prices respond to a one-percentage-point increase in Donald Trump's winning probability at hourly frequency. Panel (a) shows the cumulative response ($\beta_1^h + \beta_3^h$) for firms with different political affiliations, while Panel (b) isolates the interaction term β_3^h to identify the differential response.

Three key findings emerge from this analysis. First, Democrat-affiliated firms show no statistically significant response throughout the 25-hour horizon, suggesting these firms experience neither immediate benefits nor penalties from short-term increases in Republican electoral prospects. Second, Republican-affiliated firms demonstrate positive returns beginning three hours after the shock, with effects peaking at approximately 0.15% in hour-18 before gradually dissipating. The economic magnitude of this effect is substantial, given that prediction markets sometimes move by several percentage points in a single day during volatile campaign periods.[10]

Third, and most importantly for our identification strategy, the differential effect captured by β_3^h is positive and statistically significant from hour-0 through hour-20. This rapid incorporation of political information into stock prices suggests that market participants actively monitor electoral probabilities and quickly adjust firm valuations based on anticipated policy benefits or regulatory changes under different administrations.

Figure 3: Stock Price Response to 1pp Increase in Republican Winning Probability via PolyMarket



(a) Republican vs Democrat Firm Responses

(b) Differential Response

Notes: This figure presents the impulse response functions using hourly stock price data. Panel (a) shows the cumulative responses for Republican firms (red line) and Democrat firms (blue line). Panel (b) shows the differential response (β_3).

To test whether these effects reflect rational anticipation of policy changes rather than temporary sen-

[10] Figure A.1 in the Appendix presents the overall response of stock prices to a Republican winning probability shock, estimated without including the interaction term.

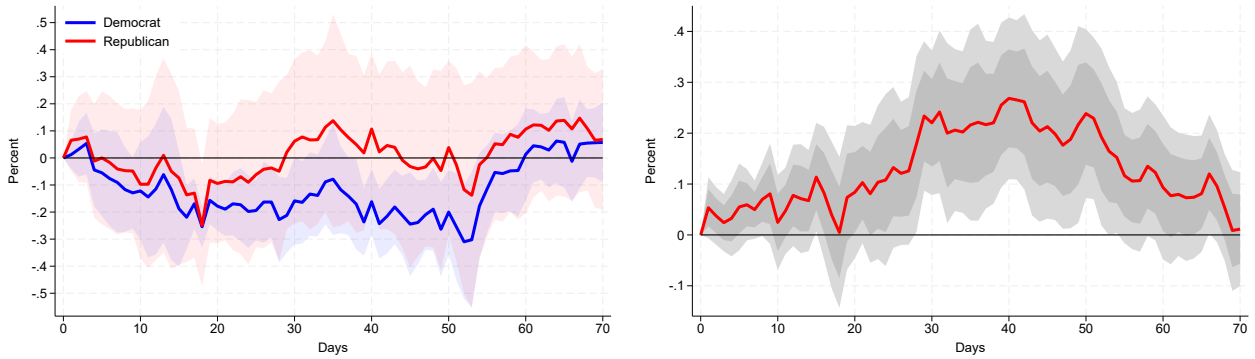
timent shifts, we examine whether the gains/losses for partisan-affiliated firms accumulate or reverse over time. The persistence of effects beyond several trading hours suggests that markets are pricing in fundamental expected policy differences rather than exhibiting temporary overreactions to political news.

5.3 Results with Daily Frequency

While hourly analysis provides insights into immediate market reactions, we now turn to daily frequency data to evaluate whether the partisan differential impact persists over longer horizons. This analysis is particularly important for understanding whether the identified effects represent permanent shifts in expected firm values or temporary fluctuations that dissipate quickly.

Figure 4 presents the stock price responses to a one-percentage-point increase in the Republican candidate's winning probability using PolyMarket data. Panel (a) reveals a striking pattern: Democrat-affiliated firms experience a significant negative response, with stock prices declining by approximately 0.3% following a one-percentage-point increase in Trump's winning probability. This effect becomes statistically significant from day-15 and remains marginally significant through a two-month horizon. The delayed manifestation of significance likely reflects the gradual incorporation of information about partisan-specific policy implications as markets fully process the implications of changing electoral odds.

Figure 4: Stock Price Response to 1pp Increase in Republican Winning Probability via PolyMarket



(a) Republican vs Democrat Firm Responses

(b) Differential Response

Notes: This figure presents the impulse response functions using daily stock price data. Panel (a) shows the cumulative responses for Republican firms (red line) and Democrat firms (blue line). Panel (b) shows the differential response (β_3).

In contrast to Democrat-affiliated firms, Republican-affiliated companies exhibit notable resilience, showing no statistically significant negative response at any horizon. This asymmetry in responses suggests that Republican affiliations may serve as a form of political insurance against policy developments favorable to the Republican candidate. Panel (b), which plots the coefficient β_3^h, confirms that Republican firms respond significantly more positively than Democrat firms—becoming statistically significant around day-20 and remaining so until approximately day-70. The estimated economic magnitudes are notable: the differential effect peaks at approximately 0.3%, implying that during periods of significant electoral probability shifts (e.g., following major campaign events that move probabilities by 5-10 percentage points), the valuation gap between Republican and Democrat firms could widen by 1.5-3.0%. For perspective, a typical firm in our sample

has a daily return standard deviation of approximately 1.94%, suggesting that political risk constitutes an economically important component of overall return variation.

To verify that our findings are not driven by idiosyncrasies in a particular prediction market, we replicate our daily analysis using data from PredictIt, an alternative political futures market. Figure A.3 in the Appendix presents these results, which strongly corroborate our main findings. Using PredictIt data, we again observe that Democrat-affiliated firms exhibit a significant negative response beginning around day-20 and persisting through day-50, with an average decline of approximately 0.2%. Meanwhile, Republican-affiliated firms demonstrate resilience against these negative effects. The differential effect—captured by β_3^h —is significant from the onset of the shock and persists until around day-60, peaking at approximately 0.2% on day-45. The consistency across different prediction markets strengthens our identification strategy by confirming that the documented effects reflect genuine market responses to changes in electoral prospects rather than artifacts of a particular data source. Furthermore, the similar magnitudes and temporal dynamics across datasets suggest that financial markets efficiently incorporate political information from multiple sources, regardless of the specific platform generating the signals.

5.4 Intensity of Political Affiliation and Dose-Response Relationship

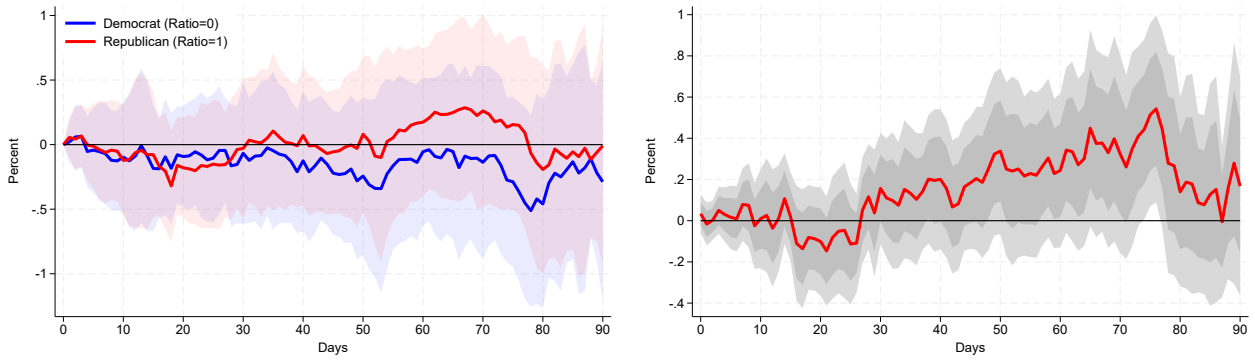
Our baseline analysis employs a binary classification of firms as either Republican or Democrat-affiliated. However, partisan ties vary in intensity across firms, with some demonstrating stronger political preferences through their contribution patterns. To explore whether the strength of partisan affiliation affects the magnitude of market responses, we replace the binary (PartyID_i) with the continuous ($\text{RepublicanAffiliation}_i$) measure, which ranges from 0 (completely Democrat-affiliated) to 1 (completely Republican-affiliated).

Figures 5 and A.4 reveal a clear dose-response relationship: fully Republican-affiliated firms experience approximately 1.2% higher stock prices relative to fully Democrat-affiliated firms per percentage-point increase in Trump's probability. This effect becomes statistically significant after 45 days and peaks around day 75. The larger coefficient magnitude compared to our binary specification (1.2% versus 0.2-0.3%) reflects the more extreme comparison between firms at opposite ends of the partisan spectrum.

The continuous affiliation measure yields somewhat less statistically significant results than the binary classification, which might reflect nonlinearities in how the market interprets political contributions. For instance, beyond a certain threshold of partisan leaning, additional contributions may not signal proportionally stronger political connections. Nevertheless, the dose-response pattern confirms that the strength of political alignment modulates the magnitude of market responses to electoral probability shifts.[11]

[11] Our results remain robust when we include additional controls such as market capitalization, book-to-market ratio, and trading volume, as well as when we use alternative affiliation measures.

Figure 5: Stock Price Response to 1pp Increase in Republican Winning Probability via PolyMarket



(a) Republican vs Democrat Firm Responses

(b) Differential Response

Notes: This figure presents the impulse response functions of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election, using daily stock price data for 71 firms from January 1, 2024, to November 20, 2024. We use a continuous measure of party affiliation. Panel (a) shows the responses of Republican-affiliated stock prices and Democrat-affiliated stock prices ($\beta_1 + \beta_3$), with 90% confidence intervals. Panel (b) shows the interaction term coefficient, β_3, with dark and light gray shaded areas representing 90% and 68% confidence intervals, respectively, using Driscoll-Kraay standard errors.

6 Conclusion

This study establishes a robust causal relationship between real-time fluctuations in presidential election probabilities and differential stock valuations based on firms' partisan affiliations. By combining high-frequency data from blockchain-based prediction markets with comprehensive corporate political contribution records, we document economically meaningful cross-sectional return patterns that emerge within hours of probability shifts and persist for several weeks. Specifically, following increases in Donald Trump's electoral probability, Republican-affiliated firms experience significant positive returns beginning three hours after the shock, peaking at approximately 0.15% around hour-18. Conversely, Democrat-affiliated firms exhibit significant negative responses of approximately 0.3% that persist for up to two months. The differential response between politically-aligned firms remains statistically significant for approximately 60 days, peaking at 0.2% on day-45—a magnitude comparable to well-documented asset pricing anomalies in the finance literature.

Our analysis makes three primary contributions to financial economics. First, we identify a precise transmission mechanism between continuous political information and cross-sectional equity returns, extending beyond the aggregate market effects documented in previous studies (Pástor and Veronesi, 2013; Kelly et al., 2016). By demonstrating how corporate partisan affiliations moderate market responses to electoral information, we provide novel evidence on the micro-foundations of political risk pricing. Unlike traditional event studies that rely on discrete electoral outcomes, our high-frequency approach reveals the dynamic process through which markets continuously incorporate evolving political probabilities into asset prices.

Second, we advance the literature on corporate political connections by quantifying the economic value of partisan affiliations in an era of intensifying polarization. While prior work has established that political connections affect firm value through explicit channels such as government contracts (Goldman et al., 2013) or regulatory treatment (Correia, 2014), our findings suggest that even intangible partisan ties—often formed

through historical campaign contributions—translate into material valuation effects as electoral probabilities shift. The persistence of these effects over multi-month horizons indicates that markets view these connections as having substantive economic implications rather than merely creating transitory sentiment-driven price movements.

Third, our methodological innovation of utilizing high-frequency blockchain-based prediction market data offers considerable advantages over traditional approaches, revealing nuanced patterns in how political information diffuses into financial markets. The continuous, market-based nature of these probability measures allows for cleaner identification than conventional polling data, which may be subject to methodological inconsistencies, publication lags, and limited sampling frequency. Our newly added ultra-high-frequency analysis further refines this understanding, pinpointing a 100-minute information processing delay before significant differential effects emerge, shedding light on the precise speed of market efficiency in pricing political risk.

While our study establishes strong empirical patterns, several limitations merit consideration. First, our analysis focuses on firms with identifiable political contributions, potentially introducing selection concerns if contributing firms differ systematically from non-contributors in their sensitivity to electoral outcomes. Although our robustness tests address this issue partially, future research could explore alternative measures of political alignment. Second, the observed effects may reflect both anticipated policy changes and information revelation about broader economic conditions, making it challenging to isolate purely partisan-specific mechanisms. Third, the 2024 election occurred during a period of heightened polarization, potentially limiting generalizability to less politically divided eras.

Despite these limitations, our findings have significant implications for various stakeholders. For investors, the systematic patterns we identify suggest that political information contains valuable predictive content for cross-sectional equity returns, particularly during periods of electoral uncertainty. The documented effects are sufficiently large and persistent to potentially inform trading strategies that exploit the differential responses of politically-affiliated firms. For corporate managers, our evidence underscores the financial materiality of political relationships, suggesting that political alignment decisions should be considered within firms' broader risk management frameworks. For policymakers, our findings highlight how markets rapidly internalize expectations about future regulatory environments, potentially creating incentives for firms to strategically cultivate particular political affiliations.

As partisan polarization intensifies and electoral cycles increasingly dominate economic policy, understanding the mechanisms linking political uncertainty to financial markets becomes increasingly consequential. Our research establishes that corporate-political connections represent a crucial transmission channel through which electoral uncertainty influences asset prices. The magnitude and persistence of the documented effects suggest that political factors constitute an economically significant component of return variation, comparable to traditional risk factors. Future research could extend our approach to examine these dynamics across different electoral contexts, asset classes, and international settings, further illuminating how political processes shape financial outcomes in modern democracies.

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A Appendix

Table A.1: Descriptive Statistics by Party Affiliation

	Republicans		**Democrats**		**Full Sample**	
Variable	*Mean*	*SD*	*Mean*	*SD*	*Mean*	*SD*
Δ Stock Price (daily)	0.06	1.96	0.06	1.92	0.06	1.94
Log(Assets)	10.81	1.24	11.25	1.52	9.49	1.55
Log(Sales)	10.21	1.34	10.77	1.49	8.86	1.18
Employment	153	256	150	362	35.7	89.07
Log(Capital Stock)	9.71	2.01	9.90	2.03	8.25	1.73
Leverage (%)	52.42	28.26	53.47	26.04	51.46	68.47
Profitability (%)	13.21	7.75	11.76	9.89	11.25	8.69
Cash Holding (%)	10.64	14.30	13.86	12.70	10.88	12.45
Net Worth (%)	33.91	22.75	33.64	19.64	34.10	24.36
Credit Rating (A share)	0.47	0.50	0.40	0.50	0.49	4.50
No. of Obs.	36		35		2048	

Notes: Assets (*at*), sales (*sale*), and capital stock (*ppegt*) are reported in millions of dollars (from COMPUSTAT). Leverage (book leverage) is the ratio of total debt (*dlc* + *dltt*) to the sum of total debt and the book value of equity. Profitability is operating income before depreciation (*oibdp*) expressed as a percentage of total assets. Cash holding (*che*) is cash and equivalents as a percentage of total assets. Net worth is total assets minus total liabilities (*at* - *lt*), expressed as a percentage of total assets. Credit rating represents the share of firms with a credit rating of A- or higher. The full sample includes all publicly listed firms from COMPUSTAT with total assets exceeding $1 billion.

Table A.2: List of Firms by Political Affiliation and Sector

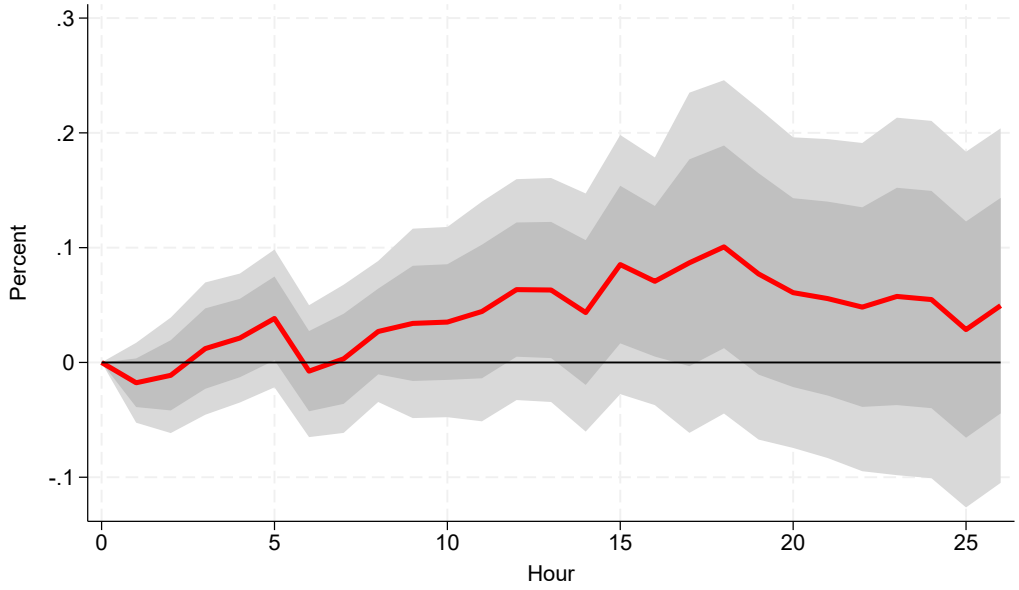
Contributor	Ticker	Political Affiliation	Intensity	Sector
Blackstone Group	BX	Republican	0.89	Finance
Ryan Specialty Group	RYAN	Republican	0.98	Finance
Charles Schwab Corp	SCHW	Republican	1.00	Finance
Coinbase	COIN	Democrat	0.42	Finance
Home Depot	HD	Republican	0.66	Misc
Walmart Inc	WMT	Republican	0.55	Misc
Honeywell International	HON	Democrat	0.46	Misc
Abbott Laboratories	ABT	Republican	0.88	Health
UnitedHealth Group	UNH	Democrat	0.48	Health
Pfizer Inc	PFE	Democrat	0.37	Health
Merck & Co	MRK	Democrat	0.24	Health
Centene Corp	CNC	Democrat	0.34	Health
Masimo Corp	MASI	Democrat	0.00	Health
AstraZeneca PLC	AZN	Democrat	0.27	Health
Amgen Inc	AMGN	Republican	0.63	Health
Asana	ASAN	Democrat	0.00	Tech
Netflix Inc	NFLX	Democrat	0.00	Tech
Google Inc	GOOG	Democrat	0.09	Tech
Microsoft Corp	MSFT	Democrat	0.14	Tech
Amazon.com	AMZN	Democrat	0.16	Tech
Twilio Inc	TWLO	Democrat	0.00	Tech
Meta	META	Democrat	0.17	Tech
Apple Inc	AAPL	Democrat	0.05	Tech
AT&T Inc	T	Democrat	0.40	Tech
Oracle Corp	ORCL	Democrat	0.27	Tech
Comcast Corp	CMCSA	Democrat	0.38	Tech
Arista Networks	ANET	Democrat	0.00	Tech
Palantir Technologies	PLTR	Republican	0.66	Tech
Warner Bros Discovery	WBD	Democrat	0.01	Tech
Walt Disney Co	DIS	Democrat	0.09	Tech
IBM Corp	IBM	Democrat	0.24	Tech
Tesla Inc	TSLA	Republican	1.00	Tech
Boeing Co	BA	Democrat	0.44	Transport
United Parcel Service	UPS	Republican	0.54	Transport
Delta Air Lines	DAL	Republican	0.54	Transport
FedEx Corp	FDX	Republican	0.69	Transport
United Airlines Holdings	UAL	Democrat	0.34	Transport
American Airlines Group	AAL	Republican	0.51	Transport
General Motors	GM	Democrat	0.38	Transport
Union Pacific Corp	UNP	Republican	0.71	Transport
Southwest Airlines	LUV	Republican	0.58	Transport
Transdigm Group	TDG	Republican	0.79	Transport
Ford Motor Co	F	Democrat	0.43	Transport
Norfolk Southern	NSC	Democrat	0.42	Transport
Toyota Motor Corp	TM	Republican	0.51	Transport
WPP plc	WPP	Democrat	0.38	Law
Energy Transfer LP	ET	Republican	1.00	Energy
Chevron Corp	CVX	Republican	0.93	Energy
Occidental Petroleum	OXY	Republican	0.99	Energy
ConocoPhillips	COP	Republican	0.93	Energy
Devon Energy	DVN	Republican	0.99	Energy
Chesapeake Energy	EXE	Republican	0.99	Energy
Nextera Energy	NEE	Democrat	0.43	Energy
MDC Holdings	MDC	Republican	0.98	Construction
AECOM Global	ACM	Democrat	0.20	Construction
British American Tobacco	BTI	Republican	1.00	Agribusiness
Altria Group	MO	Republican	0.92	Agribusiness
Tyson Foods	TSN	Republican	0.75	Agribusiness
Deere & Co	DE	Republican	0.67	Agribusiness
International Paper	IP	Republican	0.58	Agribusiness
Lockheed Martin	LMT	Democrat	0.45	Defense
Northrop Grumman	NOC	Democrat	0.42	Defense
RTX Corp	RTX	Democrat	0.46	Defense
L3Harris Technologies	LHX	Republican	0.54	Defense
General Dynamics	GD	Republican	0.50	Defense
Leidos Inc	LDOS	Democrat	0.44	Defense
Booz Allen Hamilton	BAH	Democrat	0.42	Defense
BAE Systems	BAESY	Republican	0.53	Defense
Huntington Ingalls	HII	Republican	0.53	Defense
CACI International	CACI	Republican	0.71	Defense
Parsons Corp	PSN	Republican	0.57	Defense

Notes: This table lists the 71 firms in the sample, categorized by political affiliation (Republican or Democrat) based on campaign contributions from 2021 to 2024, and their primary industry sector. *Intensity* refers to our continuous affiliation measure $\text{Intensity}_i = \frac{\text{Republican Donations}_i}{\text{Democrat Donations}_i + \text{Republican Donations}_i}$.

The following specification is run to estimate the overall stock price response to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election:

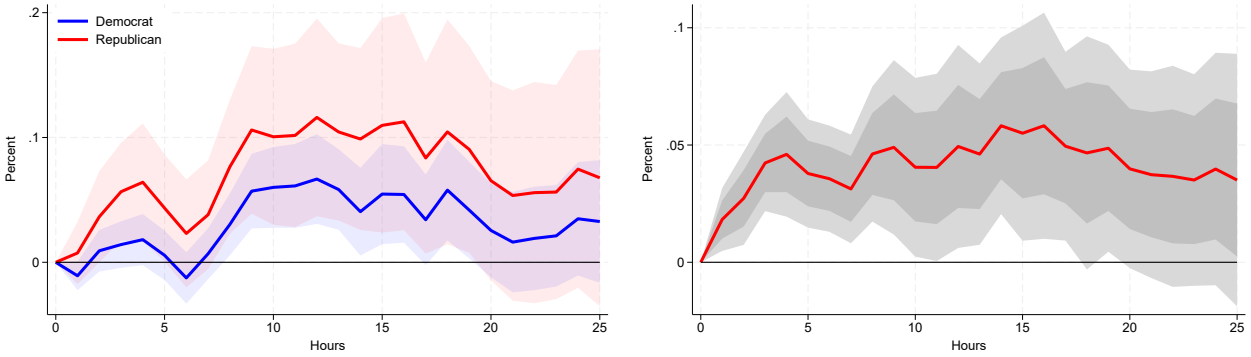
$$\log(\text{TradeClose}_{i,t+h}) - \log(\text{TradeClose}_{i,t}) = \alpha^h + \sum_{k=1}^{14} \phi_k^h \Delta \log(\text{TradeClose}_{i,t-k}) + \beta_1^h \Delta \text{Prob}_t + \beta_2^h \text{PartyID}_i + \delta_t^h + \eta_i^h + \epsilon_{i,t+h}^h$$

Figure A.1: Overall Stock Response to a 1 Percentage Point Increase in Republican Winning Probability



Notes: This figure presents the hourly impulse responses of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election. The dataset includes all 71 firms listed in Table A.2. Dark and light gray shaded areas represent 90% and 68% confidence intervals, respectively, using Driscoll-Kraay standard errors.

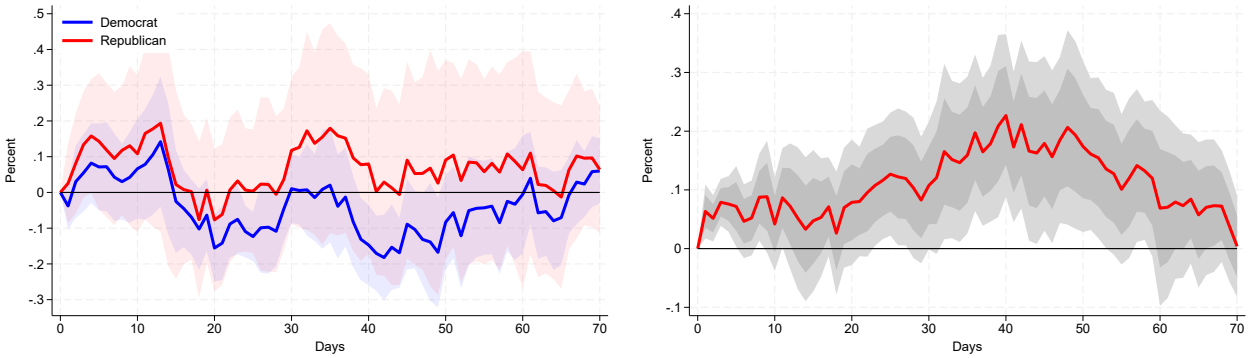
Figure A.2: Stock Price Response to 1pp Increase in Republican Winning Probability via PredictIt



(a) Republican vs Democrat Firm Responses **(b)** Differential Response

Notes: This figure presents the impulse response functions of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election, using daily stock price data for 71 firms from January 1, 2024, to November 20, 2024. We classify firms based on their binary party affiliation. Panel (a) shows the responses of Republican-affiliated stock prices and Democrat-affiliated stock prices ($\beta_1 + \beta_3$), with 90% confidence intervals. Panel (b) shows the interaction term coefficient, β_3, with dark and light gray shaded areas representing 90% and 68% confidence intervals, respectively, using Driscoll-Kraay standard errors.

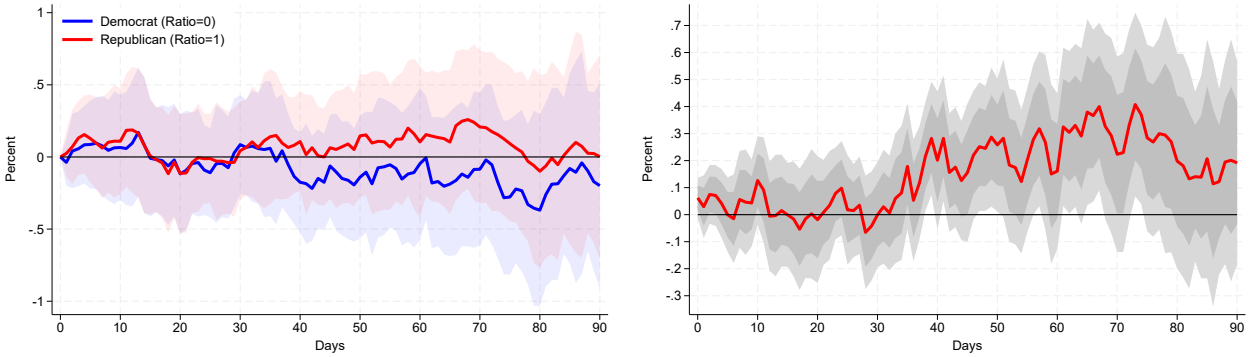
Figure A.3: Stock Price Response to 1pp Increase in Republican Winning Probability via PredictIt



(a) Republican vs Democrat Firm Responses **(b)** Differential Response

Notes: This figure presents the impulse response functions of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election, using daily stock price data for 71 firms from January 1, 2024, to November 20, 2024. We classify firms based on their binary party affiliation. Panel (a) shows the responses of Republican-affiliated stock prices and Democrat-affiliated stock prices ($\beta_1 + \beta_3$), with 90% confidence intervals. Panel (b) shows the interaction term coefficient, β_3, with dark and light gray shaded areas representing 90% and 68% confidence intervals, respectively, using Driscoll-Kraay standard errors. All specifications include the same set of controls as in Figure 4.

Figure A.4: Stock Price Response to 1pp Increase in Republican Winning Probability via PredictIt



(a) Republican vs Democrat Firm Responses

(b) Differential Response

Notes: This figure presents the impulse response functions of stock prices to a one-percentage-point increase in Donald Trump's winning probability during the 2024 presidential election, using daily stock price data for 71 firms from January 1, 2024, to November 20, 2024. We use a continuous measure of party affiliation. Panel (a) shows the responses of Republican-affiliated stock prices and Democrat-affiliated stock prices ($\beta_1 + \beta_3$), with 90% confidence intervals. Panel (b) shows the interaction term coefficient, β_3, with dark and light gray shaded areas representing 90% and 68% confidence intervals, respectively, using Driscoll-Kraay standard errors.