POLITICAL UNCERTAINTY AND CORPORATE INVESTMENT IN SWEDEN

HOW UNCERTAINTY RELATED TO SWEDISH GENERAL ELECTIONS AFFECT CORPORATE INVESTMENT IN SWEDISH PUBLIC FIRMS

ELIAS AFRASIABI
RICCARDO GUSTAVSSON

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Political Uncertainty and Corporate Investment in Sweden: How Uncertainty Related to Swedish General Elections Affect Corporate Investment in Swedish Public Firms

Abstract:
This study examines the impact of political uncertainty, caused by general elections, on corporate investment in Sweden. Using panel data from publicly listed firms between 1983 and 2024, we estimate a fixed-effects investment-Q model to analyze investment behavior around elections. While corporate investment in the overall sample does not show a significant reduction, our subsample analysis reveals significantly reduced investment in politically sensitive industries, under specific incumbent government ideologies and during periods of corporate tax policy changes. These results indicate that, in a coalition-based parliamentary system, the economic impact of election-related uncertainty is concentrated to firms with greater exposure to political decision-making.

Keywords:
Political uncertainty, Corporate investment, Elections, Sweden, Tobin's Q

Authors:
Elias Inoue Afrasiabi (25580)
Riccardo Gustavsson (25725)

Tutors:
Paula Roth, Postdoc Fellow, Swedish House of Finance

Examiner:
Ramin Baghai, Professor, Department of Finance, Stockholm School of Economics

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Stockholm School of Economics

1. Introduction

Corporate investment decisions are shaped by a broad array of internal and external factors, with the political and economic environment playing a pivotal role. Theories such as the irreversibility theory of investment (Pindyck, 1991) and real options theory (McDonald & Siegel, 1986) emphasize that under uncertain conditions, firms tend to delay or reduce capital expenditures to avoid committing to irreversible costs before more information becomes available.

Among politically driven sources of uncertainty, national elections represent key moments during which firms may adjust their investment behavior. Prior research has found that firms reduce investment activity during election years, particularly due to uncertainty around future policy direction (Julio & Yook, 2012). The impact of political uncertainty on economic decision-making has become increasingly important in the wake of recent global developments. Rising geopolitical tensions and signs of democratic backsliding have introduced additional layers of uncertainty in both advanced and emerging economies, complicating firms' investment planning and risk assessments. For example, Sweden's accession to NATO in 2023 marked a significant shift in its security policy, leading to increased defense spending and strategic realignments. Swedish Prime Minister Ulf Kristersson announced plans to raise defense spending from 2.4% to 3.5% of GDP by 2030 (Milne, 2025). This has been the largest military buildup since the Cold War, citing the new security landscape in Europe following Russia's invasion of Ukraine and uncertainties about US-EU relations (AP News, 2025).

Furthermore, Sweden's political landscape has experienced increased complexity due to the rise of populist parties and the formation of minority governments, which rely on support from parties outside the government. This has led to more prolonged coalition negotiations and policy uncertainty, potentially impacting corporate investment decisions (Lindahl, J., Hellström, J., & Bäck, H., 2019). Political uncertainty is not only relevant for firm-level decision-making; it also exerts outsized influence on financial markets. Empirical research shows that compared to typical economic indicators like changes in interest rates, commodity prices or quarterly earnings, political developments can produce far greater swings in asset valuations and financial markets. For example, shocks related to elections or trade policy have been shown to move equity prices by several percentage points or more, whereas most macroeconomic news tends to produce far more muted effects (Baker, Bloom, & Davis, 2016). In the aftermath of Donald Trump's 2025 election victory, U.S. equity markets surged as investors priced in anticipated tax cuts and deregulation, despite the surrounding uncertainty. However, in subsequent months, abrupt shifts in trade policy and escalating tariffs with China erased trillions in global equity value, illustrating how fast-changing political developments can reshape corporate expectations and risk premiums (McGeever, 2025). These dynamics are especially relevant for countries like Sweden, where many firms are export-oriented and sensitive to global capital flows.

Regarding foreign policy, the reimposition of tariffs and shifting trade alignments in the United States and Europe have already led the International Monetary Fund to revise global growth forecasts downward (Ringstrom & Johnson, 2025). These developments underscore the importance of understanding how political uncertainty influences corporate investment.

This thesis investigates the relationship between political uncertainty and corporate investment in Sweden, with a specific focus on elections in a multi-party parliamentary system as seen in Sweden. The Swedish case is particularly instructive as elections frequently produce fragmented legislatures and extended coalition negotiations, leaving the government's composition and policy trajectory uncertain

for longer periods. Moreover, many Swedish firms operate in sectors with high government exposure making them more vulnerable to shifts in public policy (Julio & Yook, 2012).

This distinction is not trivial. It highlights a key limitation in the existing literature, which tends to assume that political uncertainty is resolved once an election is over. In coalition-based systems like Sweden's however, uncertainty may persist or even intensify during the post-election period, potentially altering firms' investment timing and risk assessments.

Our empirical strategy employs firm-level panel data covering multiple elections, and uses a fixed-effects investment-Q model to estimate the effect of political uncertainty on investment. While our baseline model found no statistically significant effect of elections on average investment across all firms, more nuanced results emerged in subsample analyses. We found that politically sensitive firms significantly reduce investment during election years. Significance was also found when those elections coincided with the potential replacement of incumbent right-leaning government. Lastly, significance was also observed when elections coincide with corporate tax changes, suggesting that the channel through which political uncertainty affects investment is not merely the occurrence of elections, but the policy volatility that accompanies them.

By focusing on a coalition-based parliamentary system, this analysis provides new empirical insights into how election-related uncertainty affects real economic behavior in relatively stable institutional settings. In doing so, it contributes to the growing literature on political economy and corporate finance, while offering practical insights for investors, policymakers and firms navigating politically uncertain environments.

2. Literature Review

2.1 Theoretical Background and Related Literature

A foundational theory in corporate finance is the Investment-Q framework, commonly known as Tobin's Q, which links a firm's investment behavior to the ratio of the market value of its capital to the replacement cost. When this ratio is high, investment is theoretically more attractive because the market values additional capital more than it costs to acquire. In frictionless environments, a firm should invest until marginal Q equals 1 (Hayashi, 1982). However, in real-world conditions, financial frictions, irreversibility and uncertainty distort this relationship and elevate the option value of waiting before committing capital. (Bernanke, 1983; McDonald & Siegel, 1986). Julio and Yook (2012) utilize this framework in the context of political uncertainty, embedding Tobin's Q into a fixed-effects investment model.

Their paper shows that elections, as institutionalized episodes of policy uncertainty, influence corporate investment timing. They find that corporate investment declines by an average of 4.8% during national election years, using a large cross-country panel of 48 countries. Their findings support the real options framework (McDonald & Siegel, 1986) and Bernanke's (1983) "bad news principle", which suggests that especially when downside risk is present, uncertainty raises the option value of waiting and leads firms to postpone capital commitments.

Complementing this macro perspective, Jens (2017) uses U.S. gubernatorial elections as a quasi-experimental setting and finds that firm investment declines by up to 15% among politically exposed

firms. His analysis offers stronger causal identification and emphasizes the role of firm-level sensitivity to political outcomes. Jens also finds that firms delay both equity and debt issuance, reinforcing the notion that uncertainty affects not just investment but broader financing decisions.

Additionally, Brogaard et al. (2020) add a financial markets perspective by studying global political uncertainty through the lens of U.S. elections. They find that increased uncertainty surrounding U.S. elections reduces equity returns in over 50 non-U.S. countries, particularly where firms or investors are more globally integrated. This suggests that political uncertainty can shape not only corporate behavior but also investor sentiment and capital allocation.

While these studies each demonstrate the significance of political uncertainty from respective angles, they each overlook certain aspects. Julio and Yook's (2012) approach, partly overlooks the lingering uncertainty in coalition-based systems like Sweden's, where policy outcomes can remain unclear for weeks or months after elections due to complex coalition negotiations. Jens (2017), while offering a causal perspective with U.S. gubernatorial elections, does not account for the sector-specific political exposure that might differ in parliamentary democracies. Brogaard et al. (2020) broaden the scope by analyzing global equity returns during U.S. elections, but their focus on global market reactions does not fully capture the localized political risk that Swedish firms face, especially in highly regulated industries.

2.2 Contribution of This Thesis to the Literature

This thesis contributes to the literature by examining how political uncertainty affects corporate investment in the context of a coalition-based parliamentary democracy. While prior studies have established the average effect of elections on investment, they have focused predominantly on presidential or majoritarian systems where electoral outcomes translate directly into executive authority. In such systems, uncertainty is typically resolved once election results are known. However, this dynamic does not hold in Sweden, where multi-party elections frequently produce fragmented legislatures and require prolonged coalition negotiations (Lindahl et al., 2019a).

To address this gap, we extend the literature by incorporating Sweden-specific political variables such as changes in corporate tax policy, the ideological orientation of incumbent governments and sectoral exposure to regulation. We also control for potential spillover effects from foreign political developments by including national GDP. The empirical analysis is based on a panel of Swedish publicly listed firms from 1983 to 2024 and employs a fixed-effects investment-Q model to estimate firm-level responses to political uncertainty. This framework allows for a more granular assessment of how political uncertainty affects corporate investment beyond the scope of models that rely solely on election-year dummies.

3. Methodology

3.1 Data Collection and Sources

This study employs a quantitative empirical approach to analyze the relationship between political uncertainty and corporate investment in Sweden. The methodology builds upon the empirical framework established by Julio and Yook (2012), with modifications tailored to the institutional and political characteristics of the Swedish context. The analysis is based on three primary data categories: firm-level data, political and election-related data, and country-level data related to Sweden. These complementary datasets are essential for capturing both firm-specific determinants of investment and the broader political and economic environment in which firms operate.

The firm-level data were obtained from Refinitiv Eikon and covers all publicly listed companies on the Swedish Stock Market between 1983 and 2024. The dataset includes both currently listed and delisted firms to mitigate concerns with survivorship bias. The variables collected include EBIT, Capital Expenditures, Depreciation and Amortization, Total Assets, Total Liabilities, Cash and Cash Equivalents, Total Debt Outstanding, Cashflow and Market Capitalization. These variables allowed for the construction of key financial indicators such as investment rate, Tobin's Q and proxies for liquidity. Although not all firm-level variables were employed in every regression, the data enabled flexible model specification as required. Full variable definitions are provided in Appendix 1.

In addition to financial data, industry classification information was also extracted from Refinitiv Eikon to identify firms operating in sectors more likely to be affected by political decisions. This classification facilitated the creation of a political sensitivity dummy used in later regressions. Politically sensitive sectors were defined following the typology used by Julio and Yook (2012), encompassing the industries of tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications and transportation. These sectors are typically more exposed to regulatory changes, state procurement, scrutiny from government agencies and public funding decisions. A full description of our industry classification is included in Appendix 2.

The election-related data were sourced primarily from Statistics Sweden (SCB), which provides comprehensive records of general election results. This data was used to construct a binary election year dummy covering the full sample period. Information on government composition, ideological orientation and cabinet leadership was supplemented using the World Bank Database of Political Institutions. Where minor gaps existed, such as the number of days required to form a new government following an election, additional verification was conducted through publicly available archives (Riksdagen, 2023).

National-level macroeconomic indicators were gathered from the World Bank's World Development Indicators (WDI) and from SCB. These include real GDP growth, gross national expenditure and statutory changes in corporate tax policy. Macroeconomic indicators serve as essential controls in the regressions, capturing fluctuations in the economic environment that might otherwise confound the observed effects of political uncertainty.

3.2 Empirical Strategy

3.2.1 Empirical Model

To estimate the relationship between political uncertainty and corporate investment, a firm-level panel regression model is employed based on the investment-Q framework. This model assumes that investment decisions are determined by forward-looking growth opportunities, internal financing conditions and macroeconomic fundamentals. In the baseline specification, on which the rest of our regressions are based on, the investment rate of firm *i* in year *t* is regressed on a set of firm-level and national-level covariates, as well as firm fixed effects:

We estimate the following model:

$$\text{Investment Rate}_{it} = \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \text{Q}_{i,t-1} + \beta_3 \text{Cashflow}_{it} + \beta_4 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}$$

where *i* indexes firms and *t* indexes years. Investment Rate represents the firm's investment rate, calculated as capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, was defined to equal 1 if an election occurred in that year, and 0 otherwise. Q, represented Tobin's Q and served as a proxy for investment opportunities, with higher values indicating greater expected returns on investment. Cash flow was scaled by beginning-of-year total assets. The GDP growth accounted for broader economic conditions. Firm fixed effects (α_i) controlled for firm-specific factors that remained constant over time and the error term (ε_{it}) accounted for unobserved factors.

The key coefficient of interest was β1 on the Election Dummy variable. If β1 was negative and statistically significant, it would indicate that firms reduce investment in election years due to political uncertainty related to the election. This finding would align with the previous research conducted by Julio and Yook, suggesting that election-related uncertainty discourages firms from committing to long-term investments (Julio & Yook, 2012).

As explained above we include firm fixed effects to account for time-invariant heterogeneity across companies. Since our analysis is a panel data model, it would be wise to also include year fixed effects to capture aggregate shocks or macroeconomic trends common to all firms. However, we refrain from doing so in our case, due to a reason of technical nature. Our key variable of interest, the election-year dummy, is defined at the year level and does not vary across firms within the same year. Including year fixed effects would therefore introduce perfect multicollinearity, leading to an automatic exclusion of the election dummy from the model, making our model, and our analysis, meaningless. However, to mitigate concerns about omitting year-fixed effects, we include lagged GDP growth as a control variable. We argue that GDP growth serves as a proxy for year-specific macroeconomic conditions that would otherwise be absorbed by time-fixed effects. It helps to ensure that our estimates of the election dummy are not confounded by aggregate shocks, even if everything that time-fixed effects would account for cannot be accounted for. Our modeling choice reflects a balance between isolating the effect of political uncertainty and preserving the possibility to interpret our key explanatory variable.

3.2.2 Subsample Analyses

To examine heterogeneity in the response of different firms to political uncertainty, several extensions of the baseline model were performed. These mainly involve interaction terms between the election dummy and relevant firm or institutional characteristics.

The first subsample analysis investigates whether financial flexibility moderates election-related investment behavior. Firms are classified as cash-rich if their cash and cash equivalents exceed the sample median in a given year, otherwise they are defined as cash-poor. An interaction term between the election dummy and a binary indicator for cash-rich firms is added to test whether these firms respond differently to electoral uncertainty.

The second subsample analysis focuses on policy exposure by industry sector. Firms in industries that are typically more sensitive to government regulation or intervention, are identified and classified as politically sensitive. These include firms in the sectors of tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications, and transportation, as previously mentioned. An interaction term between the political sensitivity indicator and the election dummy is included to test whether politically exposed firms reduce investment more substantially during election years.

The third extension considers whether the ideology of the incumbent government affects the investment response. Government ideology is coded as market-friendly if the largest party in the government is classified as right-leaning or centrist, and non-market-friendly otherwise. This classification is based on the World Bank Database of Political Institutions. The interaction term between the government ideology and the election dummy captures whether changes in corporate investment during elections is mediated by the political ideology of the incumbent government party.

As a final subsample analysis addressing heterogeneity between governments, we introduce a quantitative proxy for political ideology. Specifically, we used changes in the corporate tax rate, a particularly relevant metric in the Swedish context. This variable was selected as a potential channel through which a government's political orientation could influence corporate investment behavior.

3.2.3 Robustness Checks

To ensure the robustness of the results, several additional analyses and checks were performed. To ensure no presence of multicollinearity, variance inflation factor (VIF) tests were performed on all regression models used. Furthermore, outliers defined as the top and bottom 1% of all relevant independent variables were excluded when retesting all regressions. The post- and pre-election periods, defined as election years ± 1 year, were analyzed to ensure that any observed effect of political uncertainty on company investment was truly related to election year-periods. Lastly, placebo tests were also conducted by randomly assigning election years, while keeping the average periodicity between elections, to determine whether the observed effects were genuinely driven by political uncertainty. These placebo tests were performed on all regressions containing significant results.

3.3 Challenges and Mitigation Strategies

Adapting an international empirical model to Sweden’s institutional environment required adjustments to account for its parliamentary and coalition-based political system. In contrast to presidential systems, election outcomes in Sweden do not directly determine executive leadership. Instead, post-election coalition negotiations determine the formation of government, which can take several weeks or longer. For this reason, we initially considered including a close-election proxy based on the number of days between the election and the appointment of a prime minister. However, due to the small number of elections in the dataset, the difficulty of establishing a consistent and meaningful threshold for closeness, and due to little variation between the elections, this variable was ultimately excluded from the final analysis.

Another challenge stems from the presence of multinational firms founded and headquartered in Sweden. These firms often operate globally and may be more affected by foreign political developments and elections than domestic elections. For example, large Swedish companies with significant U.S. operations could respond more to American elections than to national elections. While this effect cannot be eliminated entirely, we mitigate it in two ways. Firstly, we include national GDP growth as a control variable to account for broader macroeconomic conditions, which may reflect the influence of both domestic and international developments. The rationale is that major political events abroad, such as foreign elections, are likely to impact Swedish firms primarily through their effect on Sweden's overall economic performance. Second, by excluding statistical outliers in our robustness checks, we effectively remove many of the largest firms in the dataset. This reduces the risk that our results are disproportionately driven by firms more sensitive to foreign election than to Swedish elections, since most multinational firms also will be among the largest firms.

4. Results and Discussions

4.1 Descriptive Statistics and Visualizations

We begin by presenting univariate statistics for the key variables in our dataset to provide a general understanding of their scale and variation, shown in Table 1. This summary table shows that the mean investment rate across the sample of firms is 6.3%, with a standard deviation of 9.6%. This highlights an apparent dispersion across firms that we investigated more deeply. Tobin's Q, which proxies for investment opportunities, has a mean of 2.466 and a median of 1.518, indicating a right-skewed distribution with some firms facing particularly high growth prospects. The mean Cash Flow is -0.121 with a standard deviation of 2.295.

By splitting the sample into two using the election dummy, we can observe the summary statistics more closely from an election vs. non-election years standpoint shown in Table 2. We can see a difference in the mean investment rate observed between election years, 6.30% in non-election years vs. 6.29% in election years, suggesting a possible raw correlation at the aggregate level. However, GDP growth is significantly higher in election years, averaging 2.92% compared to 1.81% in non-election years. This underscores the importance of controlling for macroeconomic growth in our regressions to avoid upward bias when estimating the election effect.

Table 1 reports summary statistics for the most important firm characteristics used in the analysis, i.e. Investment Rate, Tobin's Q and Cash Flow. **Table 2** reports summary statistics for Investment Rate and GDP Growth in Non-election years and Election years, respectively. See Appendix 1 for exact variable definitions.

Table 1: Firm Characteristics

Variable	N	Mean	Median	Std. Dev.
Investment Rate	14713	0.0630	0.0321	0.0956
Q	14713	2.4664	1.5175	3.5095
Cash Flow	14713	-0.1209	0.0498	2.2950

Table 2: Investment Rate and GDP Growth in Election Years vs. Non-election Years

	Non-election Year	Election Year
Investment Rate (Mean)	0.0630	0.0629
Investment Rate (Median)	0.0321	0.0325
Investment Rate (Std. Dev.)	0.0957	0.0954
GDP Growth (Mean)	1.8127	2.9154
GDP Growth (Median)	2.3497	2.2777
GDP Growth (Std. Dev.)	2.5077	1.5174

We then examine whether there are temporal patterns in investment behavior around elections. Figure 1 plots the mean investment rate from two years before, to two years after each election year, 0 being the year of election. Table 3 reports the corresponding figures in tabular form. We observe a modest but visible decline in the year before elections: the average investment rate decreases from 6.34% two years prior to 6.22% in the year preceding an election. On the election year itself, investment rebounds to 6.29%, and one year after it continues to increase to 6.35% before returning to levels similar to two years before the election. Although these fluctuations are small in absolute terms and we do not formally test for statistical significance in this section, the pattern is generally consistent with the hypothesis that firms decrease corporate investment in the run-up to elections. In this case however, it is the year preceding the election that sees the lowest mean investment rate, rebounding during and after the election year, reaching a peak the year following the election year. We will investigate this more thoroughly in the next section.

Figure 1 reports the Mean Investment Rate of the firms in the sample around Elections graphically. The years shown in the graph are relative to elections years. **Table 3** reports the same result in tabular form. See Appendix 1 for exact variable definitions.

Figure 1: Mean Investment Rate around Elections

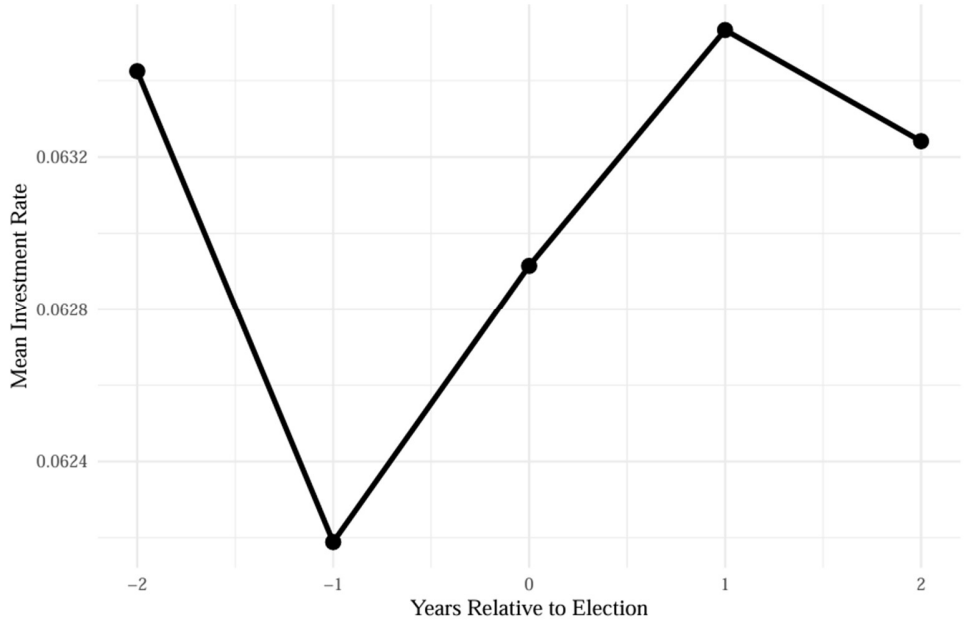


Table 3: *Mean Investment Rates around Election Years*

Year relative to Election Years	**-2**	**-1**	**0**	**1**	**2**
Investment Rate	0.0634	0.0622	0.0629	0.0635	0.0632

To graphically investigate the correlation of these fluctuations to broader macroeconomic conditions, Figure 2 plots national GDP growth over time, with election years indicated by red dashed vertical lines. There is no discernible correlation at this stage between GDP growth and election years, reinforcing the view that the investment cycle observed in Table 3 is not simply a reflection of changing macroeconomic conditions. A similar conclusion can be drawn from Figure 3, which shows investment rates over time with election years marked in a similar fashion. Here, we see no strong pattern or evidence of cyclical investment responses to elections. This strengthens the rationale for conducting multivariate regressions to isolate the specific effect of elections while controlling for confounding macroeconomic factors. To reach statistically conclusive evidence of this, we will include GDP growth as a variable in our regressions.

Figure 2 plots the GDP Growth in Sweden over time. **Figure 3** plots the Mean Investment Rate of the firms in the sample over time. The red dashed lines in both graphs indicate election years in Sweden. See Appendix 1 for exact variable definitions.

Figure 2: GDP Growth over time

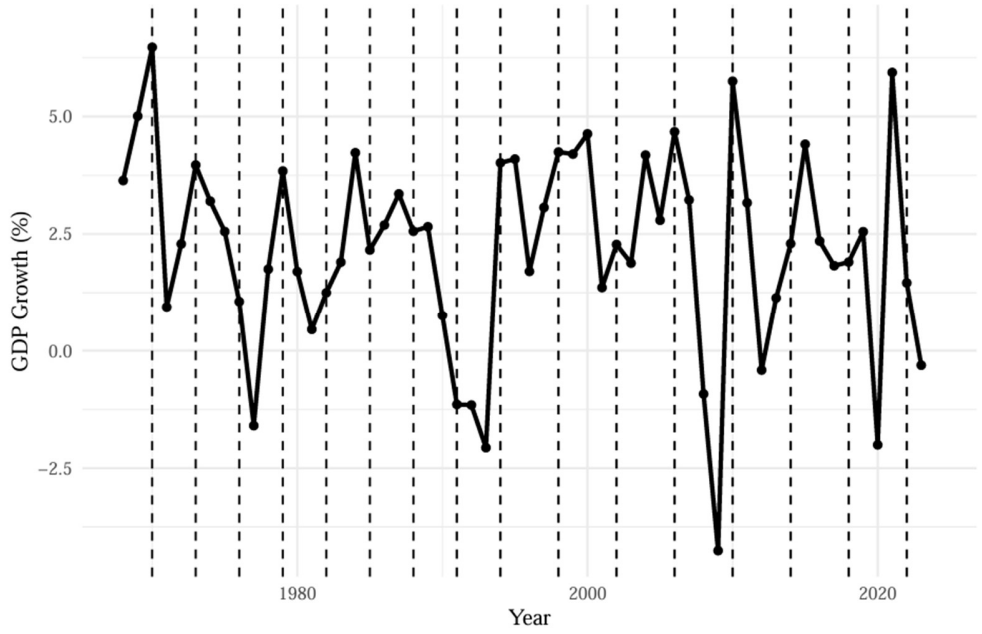
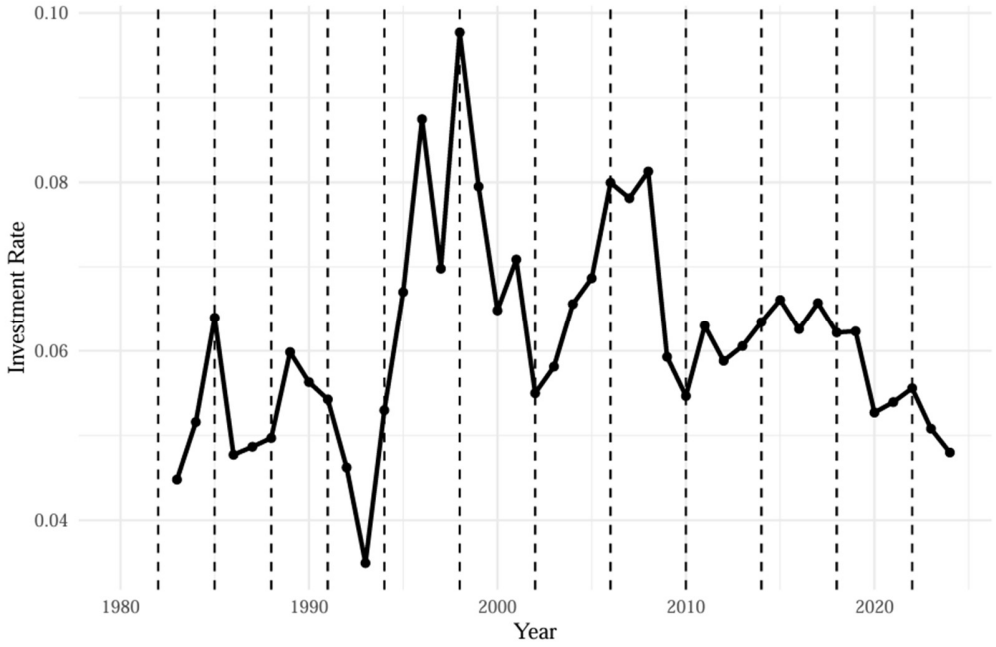


Figure 3: Mean Investment Rate over time



4.2 Baseline Regression Results

To test whether election years have a significant effect on corporate investment, we estimate a fixed-effects panel regression following the baseline specification explained earlier. The dependent variable is the Investment Rate, the key explanatory variable is the Election Dummy, we control for firm-level growth opportunities (Tobin's Q), internal financing capacity (Cash Flow), and macroeconomic conditions (GDP growth), and include firm fixed effects to account for unobserved heterogeneity.

The results for this baseline regression are reported in Table 4. The coefficient on the election dummy is negative and statistically insignificant, indicating an economically negligible effect of elections on aggregate investment. The interpretation of this is that, on average, Swedish firms do not significantly alter their investment activity during election years.

The control variables however, behave largely as expected. Tobin's Q is positive and highly significant at the 1% level, confirming that firms with better investment opportunities, as measured by market valuation relative to asset base, tend to invest more. Lagged GDP growth is also positively and very highly significantly associated with investment at the 0.1% level, indicating that firms are more likely to invest when the broader economy is expanding. Furthermore, Cash Flow is negative and very highly significant at a 0.1% level in the baseline model, suggesting that Cash Flow also is a primary driver of investment when Q and macroeconomic conditions are accounted for.

These findings contrast with the broader cross-country results of Julio and Yook (2012), suggesting that Sweden's general economic and political environment may limit the average firm's exposure to electoral uncertainty. Given this insignificant result of the election dummy at the aggregate level, we next explore whether certain firm characteristics, like differences in financial flexibility, can explain variation in election-year investment behavior.

Table 4 presents the estimates of the Baseline Regression defined as

$$\text{Investment Rate}_{it} = \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \text{Q}_{i,t-1} + \beta_3 \text{Cash Flow}_{it} + \beta_4 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}$$

where i indexes firms and t indexes years. Investment Rate is capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, is defined to equal 1 if an election occurred in that year, and 0 otherwise. Q represents Tobin's Q and serves as a proxy for investment opportunities. Cash Flow is Cash Flow scaled by beginning-of-year-total-assets. The %ΔGDP growth is the percentage change in Sweden's GDP. See Appendix 1 for exact variable definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 4: Baseline Regression

	Baseline Model
Election Year Dummy	-2.06e-05
	(1.29e-03)
Tobin's Q (t-1)	1.21e-03**
	(4.40e-04)
Cash Flow	-5.54e-03***
	(2.99e-04)
GDP Growth (t-1)	9.28e-04***
	(2.27e-04)
Observations	9858
R^2	0.524

4.3 Cash Holdings and Financial Flexibility

Building on the results from the baseline regression, we next examine whether variation across firms' financial position, specifically their cash holdings, might account for differences in investment responses to elections. The intuition is that firms with greater liquidity may be better able to maintain planned investments despite heightened uncertainty, while cash-constrained firms might postpone spending until after the election period.

For this subsample analysis, we divide firms into two groups based on their cash holdings relative to total assets and estimate a regression that includes an interaction between the election dummy and a cash-rich firm indicator.

Shown in Table 5, the interaction term between the election dummy and cash-rich status is statistically insignificant, indicating no meaningful difference in investment behavior between firms with high versus low cash buffers. Interestingly, the main effect of the election dummy becomes marginally negative, -0.003, and weakly significant at the 10% level. The estimated effect is economically small at around 0.3 percentage points, and is not robust across specifications.

Rather than implying that liquidity is irrelevant, this result could suggest that Swedish capital markets may be sufficiently developed and resilient to buffer firms against short-term political shocks, regardless of internal cash positions. In such an environment, financial frictions are likely minimal, and investment

decisions are more strongly driven by expectations of future profitability than by liquidity constraints (Kaplan & Zingales, 1997).

Since differences in firm financial flexibility does not appear to explain election-related variation in investment, we next turn to differences between firms in the form of industry belonging. By defining certain industries that are more exposed to government policy as politically sensitive, we look at if firms in these industries respond differently to political uncertainty.

Table 5 presents the estimates for the Cash-rich vs. Cash-poor Regression defined as

$$\text{Investment Rate}_{it} = \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \text{High Cash}_i + \beta_3 \left(\text{Election Dummy}_t \times \text{High Cash}_i\right)$$
$$+\beta_4 \text{Q}_{i,t-1} + \beta_5 \text{Cashflow}_{it} + \beta_6 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}$$

where i indexes firms and t indexes years. Investment Rate is capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, is defined to equal 1 if an election occurred in that year and 0 otherwise. High Cash is defined as a binary variable, and a firm is defined as being High Cash if its Cash and Cash Equivalent scaled by total assets is higher than the median in the sample. Q represents Tobin's Q and serves as a proxy for investment opportunities. Cash Flow is Cash Flow scaled by beginning-of-year-total-assets. The %ΔGDP growth is the percentage change in Sweden's GDP. See Appendix 1 for exact variable definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 5: Cash-Rich vs. Cash-Poor Regression

	Cash-Rich vs. Cash-Poor Model
Election Year Dummy	-3.03e-03 ·
	(1.76e-03)
High Cash	-9.04e-04
	(2.24e-03)
Tobin's Q (t-1)	1.53e-03*
	(7.10e-04)
Cash Flow	-1.91e-03
	(3.53e-03)
GDP Growth (t-1)	1.26e-03***
	(2.70e-04)
Election Year Dummy x High Cash	3.90e-03
	(2.82e-03)
Observations	7072
R^2	0.529

4.4 Heterogeneity by Political Sensitivity

Given the absence of an aggregate effect and the lack of differential responses based on firm liquidity, we next explore whether industry-specific exposure to political decision-making influences investment behavior during election years. To do this, we examined whether firms operating in sectors more directly affected by public policy react differently to electoral uncertainty.

Following the classification of Julio and Yook (2012), we define a firm as politically sensitive if it belongs to an industry where government regulation, government procurement or scrutiny from government agencies is especially common. These include tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications and transportation. Firms in these sectors are coded with a sensitivity dummy equal to one; all others are coded zero.

Table 6 presents the estimates for the Politically Sensitive Firms Regression defined as

$$\text{Investment Rate}_{it} = \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \text{Political Sensitivity}_i + \beta_3 \big(\text{Election Dummy}_t \times \text{Political Sensitivity}_i\big) + \beta_4 \text{Q}_{i,t-1} + \beta_5 \text{Cashflow}_{it} + \beta_6 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}$$

where i indexes firms and t indexes years. Investment Rate is capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, is defined to equal 1 if an election occurred in that year and 0 otherwise. Political Sensitivity is a dummy variable defined as 1 if the specific firm belongs to a politically sensitive industry. The following industries are defined as being political sensitive: tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications and transportation. Q represents Tobin's Q and serves as a proxy for investment opportunities. Cash Flow is Cash Flow scaled by beginning-of-year-total-assets. The %ΔGDP growth is the percentage change in Sweden's GDP. See Appendix 1 for exact variable definitions and see Appendix 2 for exact sensitive industry definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 6: Politically Sensitive Firms

	Politically Sensitive Firms Model
Election Year Dummy	1.16e-03
	(1.34e-03)
Tobin's Q (t-1)	1.21e-03**
	(4.40e-04)
Cash Flow	-5.52e-03***
	(3.00e-04)
GDP Growth (t-1)	9.28e-04***
	(2.27e-04)
Election Year Dummy x Political Sensitive Dummy	-1.30e-02**
	(4.67e-03)
Observations	9858
R^2	0.524

In Table 6, we estimate a regression that includes an interaction term between the election dummy and the political sensitivity indicator. The interaction coefficient is -0.013 and statistically significant at the 1% level, indicating that politically sensitive firms reduce investment significantly during election years. However, the main effect of the election dummy remained statistically insignificant, reinforcing that the election effect is not general but conditional on policy exposure through industry belonging. Economically, the interaction term implies that during election years, politically sensitive firms invest approximately 1.3 percentage points less of the value of their assets compared to firms in non-sensitive sectors.

This result provides the first strong evidence that election-year political uncertainty in Sweden does influence firm behavior, but only for a subset of firms. Even in a country with relatively low institutional volatility, companies that depend heavily on predictable government policy appear to defer or scale back investment when faced with potential regulatory change. This finding shifts the analysis from average effects toward understanding which firms are most exposed to political uncertainty (Baker, et al., 2016).

4.5 Role of Political Ideology

Having established that politically sensitive firms reduce investment during election years, we next ask whether the effect of political uncertainty on corporate investment also depends on who is in power. Specifically, we investigate whether the ideology of the incumbent government moderates investment behavior in election years. The rationale is straightforward: right-leaning or centrist governments are generally perceived as more market-friendly than left-leaning ones (Potrafke, 2009). As a result, when a right-leaning government is in power, firms may view an upcoming election as a potential risk since there is a possibility of a replacement of the market-friendly administration with a less market-friendly one. On the contrary, if the incumbent government is left-leaning, the prospect of political change may be seen as less of a threat. This dynamic suggests that firms might adjust their investment behavior based on the political orientation of the current government, making this an important area for further investigation.

To test this, we construct a market-friendly incumbent dummy that takes the value of 1, if the incumbent government in the election year is classified as right-leaning or centrist by the World Bank Database of Political Institutions, and 0 if it is left-leaning. We then interact this dummy with the election year indicator to assess whether the effect of elections varies depending on the government's political orientation.

Table 7 reports the results of this regression. The interaction term between the election dummy and the political ideology indicator is negative, -0.016, and highly statistically significant at the 1% level, suggesting that investment declines more during election years when the sitting government is right-leaning or centrist. The main effect of ideology remains statistically insignificant, indicating that outside of election periods, the identity of the ruling party does not systematically influence investment behavior.

This finding reinforces the idea that it is not elections per se, but the possibility of a shift from a right-leaning, market-oriented government, to a left-leaning, interventionist one, that generates uncertainty. When firms anticipate that a business-friendly government may be replaced by one perceived as more regulatory, they are more likely to delay capital expenditures until policy clarity is restored. This precautionary behavior is consistent with real-options theory, which says that firms delay irreversible investments when the regulatory or economic environment becomes less predictable (K Dixit & S Pindyck, 1994).

Finally, the interaction between the election dummy and political sensitivity remains negative and significant in this model as well. This indicates that policy exposure through industry belonging, and political ideology represent distinct but compounding sources of election-related investment risk. Firms that are both politically sensitive and reliant on market-oriented policy frameworks may be especially cautious in election years.

Table 7 presents the estimates for the Incumbent Government Political Ideology Regression defined as

$$\text{Investment Rate}_{it} = \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \text{Political Ideology}_t$$
$$+\beta_3\left(\text{Election Dummy}_t \times \text{Political Ideology}_t\right)$$
$$+\beta_4\left(\text{Election Dummy}_t \times \text{Political Sensitivity}_i\right) + \beta_5 \text{Q}_{i,t-1}$$
$$+\beta_6 \text{Cashflow}_{it} + \beta_7 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}$$

where i indexes firms and t indexes years. Investment Rate is capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, is defined to equal 1 if an election occurred in that year and 0 otherwise. Political ideology is a dummy variable that takes the value of 1 if the largest government party in a certain election is defined as either a right or centrist party according to the World Bank Database of Political Institutions. Political Sensitivity is a dummy variable defined as 1 if the specific firm belongs to a politically sensitive industry. The following industries are defined as being political sensitive: tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications, and transportation. Q represents Tobin's Q and serves as a proxy for investment opportunities. Cash Flow is Cash Flow scaled by beginning-of-year-total-assets. The %ΔGDP growth is the percentage change in Sweden's GDP. See Appendix 1 for exact variable definitions and see Appendix 2 for exact sensitive industry definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 7: Incumbent Government Political Ideology

	Political Ideology Model
Election Year Dummy	9.92e-04
	(2.60e-03)
Political Ideology Dummy	-7.31e-03*
	(3.00e-03)
Tobin's Q (t-1)	1.16e-03
	(9.02e-04)
Cash Flow	1.97e-03
	(2.12e-03)
GDP Growth (t-1)	1.43e-03***
	(4.10e-04)
Election Year Dummy x Political Ideology Dummy	-1.59e-02**
	(5.39e-03)
Election Year Dummy x Political Sensitive Dummy	-2.06e-02*
	(9.86e-03)
Observations	3972
R^2	0.573

4.6 Interaction with Corporate Tax Policy

After identifying sectoral and ideological sources of investment hesitation, we turn to the question of policy change itself. Given corporate tax rates having large impact on company financials, we examine whether changes in this fiscal policy influence the relationship between elections and investment. We also examine if this might be a channel through which the difference between market-friendly and non-

market-friendly governments affects corporate investments. This test is particularly relevant to the Swedish context, as fiscal policy has been a focal point of debate in several elections (Reuters, 2024). Moreover, this component constitutes an original contribution to the Julio and Yook (2012) framework.

In Table 8, we interact the election dummy with the annual change in the corporate tax rate. The interaction term is negative, -0.00120, and very highly statistically significant at the 0.1% level, indicating that when elections coincide with changes in tax policy, firms are more likely to reduce investment. The main effect of tax change in contrast, is positive and significant at the 5% level.

Importantly, the inclusion of tax variables does not change the baseline result, that is, the main effect of the election dummy remains statistically insignificant. This supports the view that election-year uncertainty does not lower investment in general. Rather, its effects are conditional on additional risk factors.

Table 8 presents the estimates for the Corporate Tax Regression defined as

$$\begin{aligned}\text{Investment Rate}_{it} = {} & \alpha_i + \beta_1 \text{Election Dummy}_t + \beta_2 \%\Delta\text{Corporate Tax}_t \\ & + \beta_3 \left(\text{Election Dummy}_t \times \%\Delta\text{Corporate Tax}_t\right) + \beta_4 \text{Q}_{i,t-1} + \beta_5 \text{Cashflow}_{it} \\ & + \beta_6 \%\Delta\text{GDP}_{t-1} + \epsilon_{it}\end{aligned}$$

where i indexes firms and t indexes years. Investment Rate is capital expenditures divided by beginning-of-year total assets. The key independent variable, Election Dummy, is defined to equal 1 if an election occurred in that year and 0 otherwise. %ΔCorporate Tax measures the percentage change in corporate tax between years. Q represents Tobin's Q and serves as a proxy for investment opportunities. Cash Flow is Cash Flow scaled by beginning-of-year-total-assets. The %ΔGDP growth is the percentage change in Sweden's GDP. See Appendix 1 for exact variable definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 8: Changes in Corporate Tax

	Corporate Tax Model
Election Year Dummy	-7.01e-04
	(1.31e-03)
Change in Corporate Tax	4.18e-04*
	(1.62e-04)
Tobin's Q (t-1)	1.22e-03**
	(4.41e-04)
Cash Flow	-5.53e-03***
	(3.01e-04)
GDP Growth (t-1)	9.08e-04***
	(2.26e-04)
Election Year Dummy x Change in Corporate Tax	-1.20e-03***
	(3.60e-04)
Observations	9858
R^2	0.524

4.7 Robustness Checks:

4.7.1 Robustness and Limitations

To ensure the robustness of the results, several additional analyses and checks were performed, with the most relevant result being presented further below. We began by addressing the potential influence of extreme values in firm-level variables. All regressions were re-estimated after excluding observations in the top and bottom 1 percent of the distribution for each relevant independent variable. This trimming procedure was applied symmetrically to ensure that the results were not skewed by either unusually large or small firms. By excluding the largest firms, we accounted for multinational companies whose investment behavior may be largely influenced by non-Swedish elections. The results for key interaction terms, most notably those involving political sensitivity and political ideology, remained robust in both magnitude and statistical significance, indicating that the effects are not driven by a small number of outliers.

To test the timing of investment adjustments, we included additional dummy variables for the years immediately preceding and following elections. This allowed us to examine whether changes in corporate investment was deferred until after the resolution of uncertainty, or pulled forward in anticipation of electoral outcomes. In all cases, the coefficients on these dummies were statistically insignificant, and their inclusion did not alter the core results.

To assess whether the significant interaction effects observed in our main analysis could possibly have arisen by chance, we implemented placebo regressions using randomly generated election years. These dates preserved the average electoral periodicity in Sweden but were uncorrelated with actual political events. For each model that produced a significant interaction in the real data, we re-estimated the regression using these placebo election years. The results, presented in Table 11, shows that the placebo interaction terms with political sensitivity and political ideology are statistically insignificant. These findings reinforce the robustness of our core results: the reactions of politically sensitive firms and the influence of incumbent government ideology appear meaningfully tied to real elections. However, the placebo interaction for corporate tax changes is statistically significant at the 5% with a magnitude comparable to that found in the main analysis. This suggests that while the baseline finding highlights tax changes as a channel of political uncertainty, the tax interaction effect may be partially confounded by underlying time trends or omitted variables that coincide with both elections and fiscal adjustments.

Finally, to assess our model structure, we examined multicollinearity among the independent variables. Pairwise correlations across regressors were generally modest, with no values exceeding 0.25 in absolute terms. Additionally, variance inflation factor (VIF) tests yielded values well below the conventional cutoff of 5 in all specifications, with the majority of VIFs falling between 1.0 and 2.4. These diagnostics suggest that our coefficient estimates are not subject to distortion from collinearity among explanatory variables.

Table 9-11 Robustness Checks

The three tables below (i.e. table 9, table 10, table 11) present the most relevant estimation results from several robustness checks. In table 9 the three earlier regressions that had estimated significant results (i.e. Political Sensitivity Regression, Political Ideology Regression, Corporate Tax regression) are re-estimated after outliers in the form of top 1% and bottom 1% of the relevant independent variables have been excluded. In table 11 the same regressions are re-estimated using randomized elections years, while keeping the average election periodicity of Sweden, to define the placebo election dummy. In table 10, two new dummies have been defined that corresponds to the pre- and post-election periods, respectively. The same control variables as previously are still used. See Appendix 1 for exact variable definitions. The standard errors are reported in brackets. ·, *, **, and *** represent statistical significance at the 10%, 5%, 1% and 0.1% level, respectively.

Table 9: Robustness Checks – Excluding Outliers

	Political Sensitivity	**Political Ideology**	**Corporate Tax**
Election Year Dummy	1.23e-03	1.26e-03	-5.87e-04
	(1.33e-03)	(2.65e-03)	(1.30e-03)
Election Year Dummy × Political Sensitivity Dummy	-1.21e-02*	-2.40e-02*	
	(4.75e-03)	(1.13e-02)	
Political Ideology Dummy		-7.03e-03*	
		(3.15e-03)	
Election Year Dummy × Political Ideology Dummy		-1.65e-02***	
		(4.92e-03)	
Corporate Tax Change			4.66e-04**
			(1.63e-04)
Election Year Dummy × Corporate Tax Change			-5.94e-04*
			(2.95e-04)
Observations	9451	3765	9451
R^2	0.522	0.592	0.522

Table 10: Robustness Checks – Checking Pre-/Post-election Periods

	Pre-election Period	**Post-election Period**
Pre-election Year Dummy	-1.38e-03	
	(1.21e-03)	
Post-election Year Dummy		1.14e-03
		(1.16e-03)
Observations	9858	9858
R^2	0.524	0.524

Table 11: Robustness Checks – Placebo Tests

	Political Sensitivity	**Political Ideology**	**Corporate Tax**
Placebo Election Year Dummy	-9.35e-05	3.63e-03	-6.72e-04
	(1.10e-03)	(2.33e-03)	(1.19e-03)
Placebo Election Year Dummy × Political Sensitivity Dummy	6.59e-04	5.54e-03	
	(3.50e-03)	(9.16e-03)	
Political Ideology Dummy		-9.96e-03**	
		(3.49e-03)	
Placebo Election Year Dummy × Political Ideology Dummy		-6.19e-03	
		(4.59e-03)	
Corporate Tax Change			1.43e-03**
			(4.41e-04)
Placebo Election Year Dummy × Corporate Tax Change			-1.29e-03**
			(4.75e-04)
Observations	9858	3972	9858
R^2	0.524	0.571	0.525

While these robustness checks primarily support the internal validity of our results, several limitations to our study remain. Firstly, the study is limited to a single country with relatively low institutional volatility, which may constrain the external generalizability of our findings. In contexts where political systems are less stable or where institutional trust is lower, the mechanisms we identify could play a different role. Secondly, although we incorporate several channels of policy uncertainty, such as politically sensitive industry, incumbent ideology and changes in corporate tax, other relevant dimensions remain difficult to capture. For instance, these include other areas of fiscal policy and differences in ideology between different parties in the same collation governments.

Nonetheless, the consistency of our results across the robustness checks gives credibility to the conclusion that political uncertainty affects corporate investment in Sweden in conditional and sector-specific ways. Rather than inducing a universal investment slowdown, elections appear to matter primarily for firms that are directly exposed to regulatory environments and fiscal reform.

4.8 Discussion

Our results challenge the generalizability of earlier findings in the literature. Julio and Yook (2012) draw on a large cross-country sample and report a consistent election-year slowdown in corporate investment. In contrast, we find no such effect for the average Swedish firm. Instead, the investment response to political uncertainty appears selective. It emerges only among firms in industries heavily exposed to political decision-making, and becomes most pronounced when elections coincide with changes in corporate tax or potential ideological shifts in government.

The big difference between a cross-country analysis, similar to that of Julio and Yook, and our Sweden-specific analysis, becomes one of institutional context. In their cross-country sample, many countries have presidential systems, and in such systems election outcomes often result in clear and immediate changes to executive power and economic policy. In Sweden, coalition governments are the norm, and elections rarely yield decisive outcomes. Even when a coalition-bloc wins, the subsequent coalition-building process can take weeks or even months of negotiations. In a sense, Swedish elections delay uncertainty resolution rather than resolving it, at least for firms exposed to government action. This is an interesting feature of the Swedish electoral system, but also other coalition-based systems, and it is a feature to keep in mind when analyzing political uncertainty in the Swedish context.

The importance of political uncertainty is clearest in our politically sensitive industry subsample. Firms in sectors like defense, healthcare and telecommunications face direct regulatory oversight, government agency scrutiny and depend heavily on state contracts or subsidies, making them particularly sensitive to political decisions. When policy direction is uncertain, as it often is during election years, these firms appear to adopt a precautionary stance, scaling back investment to avoid committing capital ahead of potentially adverse policy shifts. This behavior is both rational and empirically robust. It accounts for a significant drop in investment compared to non-sensitive firms and aligns with the notion that the real economic cost of uncertainty is concentrated, not broad-based.

Our results also show that ideology matters. Investment declines are amplified when right-leaning incumbents, who are generally viewed as more market-friendly, are at risk of being replaced (Potrafke, 2009). This suggests that firms may view left-leaning governments as more likely to introduce regulatory tightening or tax increases, and that the anticipation of such changes suppresses capital expenditure. Notably, we observe no corresponding effect when left-leaning incumbents face replacement. This asymmetry underscores that it is not simply political turnover that matters, but the anticipated direction of the policy change.

By introducing specific policy changes into our model, the above conclusion reaches an additional dimension. In our model we introduce changes in corporate tax as a specific policy change, and we reach the conclusion that when elections coincide with changes in tax policy, firms are more likely to reduce investment. This shows that investment slows not simply because of political elections, but because of specific, credible and imminent policy risks that can impact future profitability, in this case through changes in corporate tax.

Surprisingly, we find no differential effect based on firms' financial flexibility. The interaction between election timing and cash holdings yields no significant results, suggesting that internal liquidity is not a key driver of political risk management in Sweden. One possible explanation is that Swedish capital markets are relatively deep, even for mid-sized firms. Unlike emerging markets or crisis-prone economies, access to financing is unlikely to run out during elections. As such, investment restraint appears to be driven more by strategic uncertainty rather than by liquidity constraints, OECD (2025).

These patterns persist across a long-time horizon. Our dataset spans more than four decades, covering distinct political eras. During these four decades, governments have been led by both left-leaning parties and right-leaning parties. The robustness of the results across both periods suggests that the mechanisms we identify (sectoral exposure, ideological asymmetry and policy-linked uncertainty) are not idiosyncratic to a particular government or era. They appear to reflect durable features of how Swedish firms process political information.

From a theoretical perspective, these findings reinforce real-options models of investment under uncertainty (Pindyck, 1991; McDonald & Siegel, 1986). More importantly, they refine this theory by demonstrating that not all uncertainty is treated equally. Firms are not just waiting for general "clarity" of the kind that an election provides. They wait with their investments when specific uncertainties are large. These seem to be uncertainties connected to specific sensitive industries, potential ideology change and specific policy changes. In the Swedish context, elections are not inherently disruptive, but become so when they introduce credible threats to firm-relevant policy.

Practically, this insight carries implications for multiple other actors as well. For policymakers, it suggests that bundling major fiscal proposals with election campaigns may significantly increase the uncertainty faced by firm. To the extent possible, parties might consider pre-committing to tax policy across coalitions to reduce the uncertainty. For firms, political risk management should go beyond general macro forecasting and instead focus on identifying when and how their sector intersects with the political agenda. Investors, too, might benefit from employing an investment positioning during election years that reflects not just electoral odds, but also sector-specific policy proposals and ideological standpoints of politicians. If investors can anticipate which types of uncertainty truly matter based on the available information and observable characteristics, like industry exposure, government dependence and policy sensitivity, they may gain an informational edge in forecasting investment behavior and broader market responses. In such contexts, elections can create temporary pricing inefficiencies, as markets may not react accurately on political developments as they may fail to fully incorporate firm-level heterogeneity. This opens the door for arbitrage opportunities, particularly in sectors where policy outcomes disproportionately affect cash flows and valuation.

5. Conclusion

This study investigates how political uncertainty in the context of Swedish general elections, affects corporate investment decisions in Swedish publicly listed firms. Drawing on the framework established by Julio and Yook (2012), this study extends their analysis to a Sweden-specific context. The results reveal that, on average, Swedish firms do not significantly alter their investment behavior during election years. However, further analysis uncovers significant heterogeneity, with firms in politically sensitive sectors showing a notable reduction in investment during election years. This suggests that the impact of political uncertainty on corporate investment is not uniform but varies depending on an industry's exposure to regulatory changes. The findings also highlight the importance of the political ideology of the incumbent government in shaping corporate investment decisions. Specifically, firms are more likely to reduce investment when elections coincide with potential changes in government ideology or corporate tax policies, reinforcing the idea that it is not elections themselves, but the associated uncertainty about future policies, that influences investment behavior.

With this said, this study opens multiple avenues for future research. Our definition of political sensitivity is based on static industry classifications. In reality, exposure can evolve with regulatory changes, procurement cycles or public sentiment. Dynamic measures of political exposure could add explanatory power. In addition, while we chose to omit coalition formation duration as a variable due to limited variation, future work could examine its effects in finer temporal resolution e.g. quarterly investment rates. Finally, given the inherent complexity of uncertainty, significant political events can be a potential source of political uncertainty in further research within asset-mispricing and behavioral finance in financial markets.

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7. Appendices

Appendix 1: Variable Definitions

- **EBIT (Earnings Before Interest and Taxes):** Computed as Total Revenues for the fiscal year minus Total Operating Expenses plus Operating Interest Expense, Unusual Expense/Income (SUIE) and Non-Recurring items, Supplemental, Total (SUIT) for the same period. This definition excludes non-operating income and expenses.
- **Capital Expenditures:** Represents the sum of: Purchase of Fixed Assets, Purchase/Acquisition of Intangibles and Software Development Costs.
- **Depreciation and Amortization:** Represents the sum of: Depreciation, Amortization of Intangibles and Amortization of Acquisition Costs.
- **Total Assets:** Represents the total assets of a company.
- **Total Liabilities:** Represents the sum of: Total Current Liabilities, Total Long-Term Debt, Deferred Income Tax, Minority Interest and Other Liabilities, Total.
- **Cash and Cash Equivalents:** Represents short-term, highly liquid investments that are both readily convertible to known amounts of cash and so close to their maturity that they present insignificant risk of changes in interest rates. Only investments with original maturities of three months or less qualify under these definitions.
- **Total Debt Outstanding:** Represents total debt outstanding, which includes: Notes Payable/Short-Term Debt, Current Portion of Long-Term Debt/Capital Leases and Total Long-Term Debt.
- **Cashflow:** Cash Flow is the sum of Net Income After Taxes minus Preferred Dividends and General Partner Distributions plus Depreciation and Amortization of intangibles for the fiscal period.
- **Market Capitalization:** The Company Market Capitalization represents the sum of market value for all relevant issue-level share types. The issue-level market value is calculated by multiplying the requested shares type by the latest close price. This item supports Default, Free Float, and Outstanding share types. The default shares type is the most widely reported outstanding shares for a market, and it is the most commonly Issued, Outstanding, or Listed shares.
- **Investment Rate:** Capital Expenditures divided by Total Assets.
- **Tobin's Q:** The sum of Total Liabilities and Market Capitalization divided by Total Assets.
- **High Cash:** Firms are defined as being "High Cash" if their Cash and Cash Equivalents, scaled by Total Assets, is higher than the sample median.
- **Election Dummy:** A Dummy Variable that takes the value of 1 if the year is a general election year in Sweden. Otherwise it takes the value of 0.

- **Pre-election Period Dummy:** A Dummy Variable that takes the value of 1 if the year is one year prior to a general election year in Sweden. Otherwise it takes the value of 0.
- **Post-election Period Dummy:** A Dummy Variable that takes the value of 1 if the year is one year after a general election year in Sweden. Otherwise it takes the value of 0.
- **Politically Sensitive Industry Dummy:** A Dummy Variable that takes the value of 1 if the specific firm belongs to an industry that is defined as political sensitive according to Julio and Yook (2012). Otherwise it takes the value of 0. These industries include the industries of tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications and transportation. See Appendix 2 for further information on the classification of sensitive industries.
- **Political Ideology Dummy:** A Dummy Variable that takes the value of 1 if the largest party in the incumbent government is defined as Right or Centrist according to the World Bank Database of Political Institutions. If the largest party in the incumbent government is defined as Left, the Dummy Variable takes the value of 0.
- **GDP Growth:** The yearly percentage change in GDP in Sweden.
- **Changes in Corporate Tax:** The yearly percentage change in Corporate Tax in Sweden.

Appendix 2: Classification of Political Sensitive Industries

The classification of political sensitive industries has followed the definition of Julio and Yook (2012). In their definition the industries of tobacco, pharmaceuticals, healthcare services, defense, petroleum and natural gas, telecommunications and transportation were defined as Politically Sensitive. To be able to practically define the industry belonging of each firm, we have used *The Refinitiv Business Classification* (TRBC) in Eikon. The TRBC classification employs a five-level hierarchical structure and we have based our classification on the *Industry* level. In this level, we have defined all the following industries as politically sensitive:

- Tobacco
- Pharmaceuticals
- Healthcare Facilities & Services
- Aerospace & Defense
- Integrated Oil & Gas
- Oil & Gas Exploration and Production
- Oil & Gas Refining and Marketing
- Oil & Gas Drilling
- Oil Related Services and Equipment
- Oil & Gas Transportation Services
- Integrated Telecommunications Services
- Wireless Telecommunications Services
- Airlines
- Passenger Transportation, Ground & Sea
- Airport Operators & Services
- Marine Port Services
- Highways & Rail Tracks

Appendix 3: AI-disclosure

AI tools were used in the following limited and supplementary ways:

- For debugging (not writing) R code and clarifying programming-related errors encountered during the empirical analysis.
- For editing support, such as improving grammar, sentence structure and clarity of human written text.
- As a discussion partner for ideation, helping us reflect on analytical framing, interpret results and consider better ways to present findings.

At no point was AI used to generate full sections of the thesis text, write entire paragraphs, perform any sort of analysis, or decide what to do. Furthermore, any use of AI was handled with a high level of scrutiny and awareness, to ensure that we were completely aware of the content. All writing, planning, executing, theoretical framing, empirical work and conclusions are entirely of our own.