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# The Presidential Election Cycle Theory: the case of Czech Republic and Poland

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## Abstract

The purpose of this study is to verify the occurrence of significant periodicity in the returns obtained in two financial markets of Central and Eastern Europe: Czech Republic and Poland. In the paper are also some novelty in the subject under study is to undertake a two-pronged consideration based on the years of the US presidential election cycle and the local ones taking place in the Czech Republic and Poland, respectively. Based on the annual returns of the broad market index in the Czech Republic (PX) and Poland (WIG) recorded between 1991 and 2024, their values were grouped into individual years of the four-year presidential cycle in the US, and then into the five-year presidential cycles occurring in the two countries studied. Verification of their differentiation was based on the non-parametric Kruskal-Wallis test and the Bonferroni post-hoc test. The highest returns obtained by the PX and WIG indices surveyed were recorded during the first year of the U.S. presidency, and the lowest during the second. As for the presidential cycle in the Czech Republic and Poland, they were characterized by the highest returns during the second year of the presidency, while the lowest were during year one in the Czech Republic and year four in Poland. However, the results obtained do not indicate the presence of a statistically significant variation in them, which promotes the main hypothesis adopted at the beginning of the study. Some novelty in the subject under study is the undertaking of a two-pronged consideration based on the years of the US presidential election cycle and those taking place in the Czech Republic and Poland, respectively. However, in both cases, no significant differences in annual returns were found.

*Key words: Calendar anomalies, Efficient market hypothesis, Stock exchanges, Presidential Election Cycle*

*JEL Classification: G01, G11, G17, G41.*

## 1. Introduction

A fundamentally strong economy is the goal most governments around the world strive for. One of the determinants of its existence is the operation of a developed financial market. This is because the market plays a significant role in the sustainable development of the country, ensuring the optimal distribution of funds between users and providers of

capital. The development and stable conditions of the financial market attract investment from both domestic and foreign investors (Szymański, Wojtalik, 2022).

The proper functioning of the financial market brings with it the need for the occurrence of its efficiency, which is most often understood in three dimensions: allocative, transactional and, most significantly, informational (Mikołajek-Gocejna, Urbaś, 2017). The most relevant seems to be the last one. An informationally efficient market is considered to be a market in equilibrium, in which the prices of financial instruments take into account all available information that can influence their formation (Lisicki, 2021). However, representatives of the behavioural finance (e.g. Kahneman, Tversky 1979; 1982) assume that the market is out of equilibrium due to, among other things, too rapid or slow impact of information on the price of the instrument (Buzała, 2015), which raises doubts about the correctness of the conclusions put forward by the creator of the efficient market hypothesis.

As a general rule, investors strive to make markets as efficient as possible. However, tempted by the prospect of profits greater than the mean return in the market, they use various methods that contradict the assumptions of the efficient market hypothesis. Such behaviours leads to the occurrence of so called market anomalies, which are form of deviations from the rules presented in the efficient market hypothesis (Buczek, 2005). One of the market anomalies is so called „U.S. Presidential Election Cycle Theory. It suggests that the stock market follows a pattern that correlates with a U.S. president's four-year term (Hwang, 2024).

The first two years of a term tend to be the weakest for stocks, according to the theory, as the president focuses on fulfilling campaign promises, but the market improves in the latter half of a term as the president pumps up the economy ahead of a new election (Zhao, Liano, Hardin, 2004). Although political events are not directly related to stock exchanges, they are considered one of the main factors that can affect their activities. This is because a stable and secure situation in the political arena is associated with low risk, which in turn promotes the good performance of entities listed on global stock exchanges (Bechtel, 2009). In the era of current research on financial markets, it was noticed that American stock indices prices closely followed the four-year Presidential Election Cycle. In general, stock prices fell during the first half of a Presidency, reached a trough in the second year, rose during the second half of a Presidency, and reached a peak in the third or fourth year (e.g. Gärtner, Wellershoff, 1985; Wong, McAleer, 2009; Chrétien, Fu, 2023).

Based on the relationships noticed on the US trading floor, it was also undertaken to verify anomalies underlying the impact of elections (both presidential, parliamentary and local government) in other places in the world (e.g. Ghana (Musah, Domeher, Alagidede, 2024), Iran (Faraji et. al., 2020), Macedonia (Deari, Koku, 2024); Nigeria (Afego, Abdullahi, Tijjani, Alagidede; 2022) Poland (Szymański, Wojtalik, 2022), or Turkey (Bashm Al-Awadhi, 2023). However, their number is still significantly lower than that of the world's largest financial market, which is the US.

The purpose of this study is to verify the existence of significant periodicity in the returns obtained in two financial markets of Central and Eastern Europe: Czech Republic and Poland. In the paper is also some novelty of the undertaking of a two-pronged consideration based on the years of the U.S. presidential election cycle and the local ones taking place in the Czech Republic and Poland, respectively. An important point that needs to be noted right at the

outset of the research is that they differ in duration. The US presidential cycle lasts 4 years, while in the Czech Republic and Poland it is 5 years long (Balicki, 2023; Wojnicki, 2023), with elections taking place in different years. The research will be conducted on the Czech and Polish listed broad market indices, which are the PX index in the Czech Republic and the WIG index in Poland.

Accordingly, the achievement of the main objective is to be supported by the main hypothesis of the study, which reads as follows:

*H: Depending on the year of the presidential cycle, the returns of broad market indices in the Czech Republic and Poland are characterized by statistically significant differences.*

The structure of the article comprises three parts. The first includes the previous work of researchers in the field of the impact of political elections on financial markets. The second defines the research procedure for verifying the research hypothesis and presents the author's own research results. The third part tries to summarize the results presented and indicate synthetic conclusions on the research carried out on this issue.

## 2. Presidential Election Cycle as an example of calendar anomalies in the financial markets

During the years, certain kinds of deviations (interferences) in the market efficiency hypothesis began to be noticed, which over time were referred to as capital market anomalies (Mahdian, Perry, 2002). Several examples of groups of market anomalies can be distinguished in previous studies of global financial markets. One such market anomaly, most widely recognized among capital market researchers (e.g. Dragota, Oprea, 2014; Rossi, 2015), are calendar (seasonal) effects. This a broadly identifiable category which includes anomalies that result from investor behaviour deviating from the assumptions of the efficient market hypothesis, and which occur cyclically at particular periods or moments in time (Jasiniak, 2022).

The main of the calendar anomalies in this paper is the effect of the year. In the vast majority of studies it takes the form of the U.S. Presidential Election Cycle Theory, described extensively in the (mainly American) literature (e.g. Woolley, 1991; Anzia, 2011; Smith, 2016). Initially occurring in the real estate market in the United States (Huang, 1985), the phenomenon was recognized in the financial market as well. In accordance with it, U.S. stock market in different years of the presidential term achieves different values of stock price returns (Hirsch, 2022). The first year after the election of a new president is characterized by the lowest returns achieved by investors. This is followed by a second year of stabilization, after which the third year of the presidential cycle takes place, in which the highest positive returns achieved by investors are to be expected. This phenomenon is explained by presidential actions related to the incumbent's gaining re-election. These steps are aimed at improving the economy, which in turn is well received by investors (Fuksiewicz, 2021). The final year of the cycle is a year of new elections, in which a new president takes office or the current president continues his presidency. Regardless of the results, however, this is a weaker year than the third one, which systematically transitions into the next presidential cycle involving a weakening of investor sentiment.

Moreover, it is possible to find research, which verified that immediate market reaction depends on the party of the winning candidate. The general conclusion is that the market expands when the Republican candidate wins and contracts when the Democratic candidate wins (Niedrhoffer, Gibbs, Bullock, 1970;. Riley, Luksetich, 1980; Obradović, Tomić, 2017). In subsequent years, some variation in the response of economic sectors depending on the party affiliation of the winning candidate was also noticed (Eggen, Murakami Tse, 2010). Based on the two U.S. presidential elections cycle (started in 2016 and 2020) it has been observed that companies in the military, financial and energy sectors have consistent reactions: positive when the Republican candidate wins the elections, and negative when the Democratic candidate takes the office. Electronic industry companies did not provide consistent results. As for companies in the medical sector, there was no abnormal return after any election cycle (Tomić, Todorović, Jaksić, 2023).

The significance of this political anomaly reaches far beyond the US market. However, it has been noted that the cycles appropriate to the holding of elections (presidential, parliamentary, local) in force in a given country should be used to forecast the behaviour of individual financial markets (Świder, 2019). Białkowski et al. (2008) expanded the investigation on the presidential election cycle effect beyond the US and examined the effect in a sample of 27 OECD countries to test whether national elections do induce higher stock market volatility. Their empirical findings indicate that stock prices respond strongly to the final vote distribution and temporarily elevated levels of volatility are observed.

Based on the above observations, while examining the impact of Presidential Turkish elections in 2023 on the Borsa Istanbul returns, it was noticed that the impact of the first round of the elections on the stock market is mixed, but the second round of the elections' results show that re-elections (Recip Erdogan-former president of Turkey) have a significant positive impact on Borsa Istanbul returns (Bash, Al-Awadhi, 2023). Afego et al. (2023) measured abnormal returns prior to and following the announcement of the election results in Nigeria. Also in Nigeria, Edoigbe and Modugu (2018) find evidence inconsistent with the political business cycle theory. This study reveals that sector stock returns decrease before political elections and begin to rise after the election. They found that the market responded positively in the 2015 elections when there was a change in the presidency to an opposition party candidate. However, in the re-elections in 2019, the response was weakly positive. In a similar study, Shen et al. (2017) analysed how political aspects such as government policies and political connections affect stock returns by focusing on the 2008 Taiwanese presidential election. They discovered that companies benefiting from the winning party's achieved positive stock returns during the election. Hashim and Mosalamy (2020) examined the effect of presidential elections on stock returns in Egypt. The authors found some evidence to conclude that presidential elections do not exert any significant abnormal returns on the Egyptian market.

The presidential elections were not the only subject of consideration in the context of the impact of political events on the returns achieved by financial markets. Based on the local elections in the Republic of North Macedonia's MBI10 Index it was found that local elections did not have any statistically significant effect on the stock prices, as only 10% of the stocks traded experienced significant abnormal returns during the election period

(Deari, Koku, 2024). Kabiru et. al. (2015) also conducted a similar study in Kenya. Their main topic was that the political environment during general elections significantly impacts the performance of financial markets in Kenya. The study found that market reaction to general political elections in Kenya was highly negative or positive depending on the volatility of the election environment. However, in his study, Floros (2008) examined the impact of political elections, in particular the Greek elections on the performance of the Athens Stock Exchange in 1996-2002. The author found no evidence of significant political influence on the listing of the Athens Stock Exchange (ASE) before and after the Greek parliamentary and European elections. Also using the example of the Warsaw Stock Exchange (WSE), an investigation was undertaken into whether the results of political elections in Poland (presidential, parliamentary and local government elections) have an impact on the quotations of Polish stocks and the currency (PLN). Interestingly, the impact of the presidential elections proved to be significant, characterized by the occurrence of negative abnormal returns in the 5 days after the elections. Parliamentary elections and local government elections did not have a statistically significant impact on the studied indices (Szymański, Wojtalik, 2022).

The presented research was intended to indicate that elections (presidential, parliamentary or local) can affect the formation of returns on financial markets. Moreover, this dependence has been noticed not only in developed financial markets (such as the US or Japanese), but also in emerging markets ( Egypt, Macedonia, Nigeria or Poland, among others). Therefore, it seems reasonable to undertake research in this area. The present one is the author's main motivation to verify the possibility of the occurrence of the U.S. Presidential Election Cycle Theory on the example of two broad market indices (PX and WIG) listed on the developing financial markets of Central and Eastern Europe, i.e. the Czech Republic and Poland. In the paper are also some novelty compared to previous studies will be the use of an approach based on both the American presidential election cycle and those occurring in the Czech Republic and Poland, respectively. The study will compare whether it is possible to record a statistically significant variation in average annual returns within each presidential cycle.

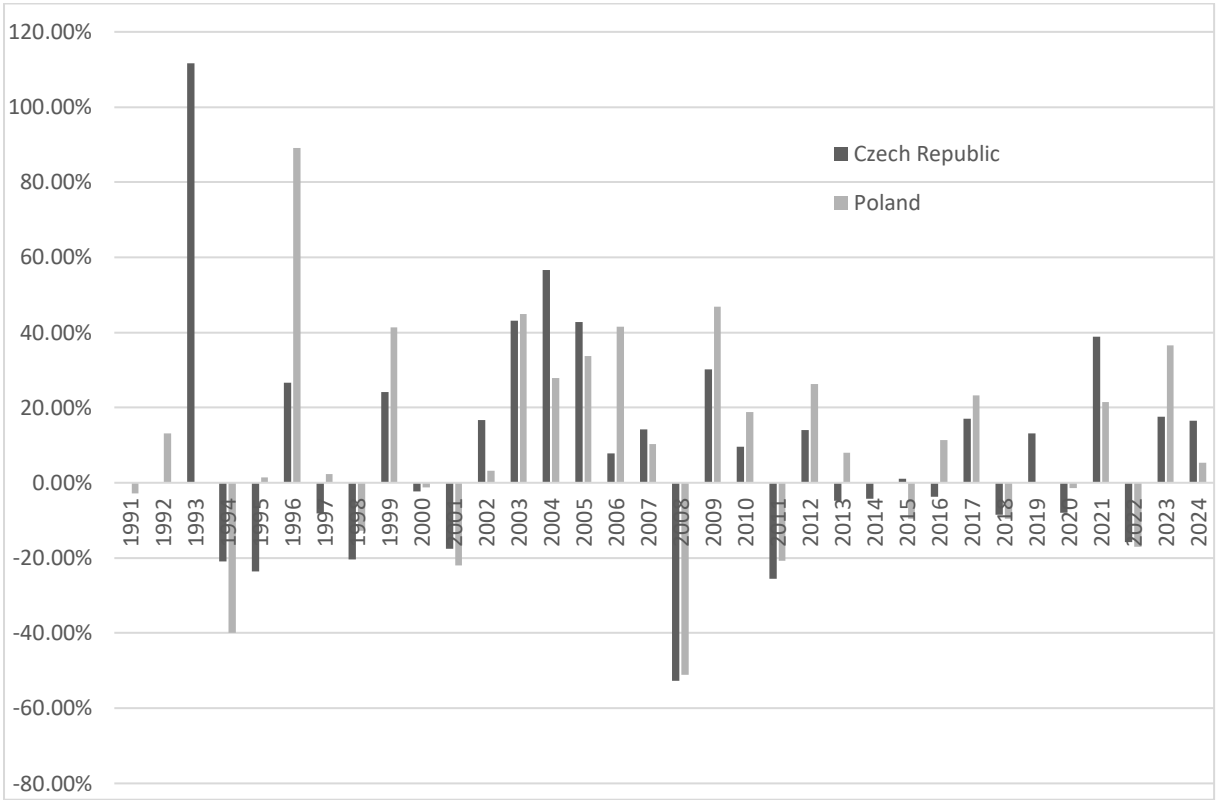
## 3. Research procedure and results

The purpose of this study is to verify the occurrence of significant periodicity in returns for two broad market indices (PX and WIG) listed on the financial markets of Central and Eastern Europe: Czech Republic and Poland. For this purpose, it is necessary to download historical quotations of each index (Stooq.com, 2024) from the beginning of the trading floors in these countries, i.e. from 1991 in the case of the Polish broad market index and from 1993 in the case of the Czech index until the end of the research period (2024). The downloaded quotations will enable the calculation of the annual returns of each index, which will be assigned to the individual years of the presidential cycles. Importantly, the assignment will be first based on the four-year American presidential cycle (Bash, Al.-Awadhi, 2023), and then on the individually determined (five-year) presidential cycles that characterize the countries under study (Balicki, 2023; Wojnicki, 2023).

On this basis, the annual returns obtained from the studied indices until the end of 2024 will be grouped into the first, second, third and fourth year of the U.S. presidential term, respectively, in order to verify whether it is possible to see the classic U.S. Presidential

Election Cycle Theory in the studied markets. Subsequently, the returns of the aforementioned indices will be graded to the 1st, 2nd, 3rd, 4th and 5th year of the presidential term of the Czech Republic (in the case of the PX index) and Poland (in the case of the WIG index), respectively. Such a procedure is justified by the existing literature on the subject, as it has been noted that the cycles appropriate to the holding of elections in force in a given country should be used to forecast the behaviour of individual financial markets (Świder, 2019). Therefore, it was decided in this study to verify the impact of both the U.S. Presidential Election Cycle Theory in its original formulation and in the context of the occurrence of presidential elections in local markets. The research results obtained will be subjected to statistical verification employing the Kruskal-Wallis (1952) nonparametric test, which allows to verify the hypothesis about the mean quality of the examined variable in several independent groups. A post hoc test was conducted using Bonferroni (1936) test correction to clarify the Kruskal-Wallis test results.

As noted at the beginning of this section, an essential starting point for the process of verifying the statistical significance of the periodicity of the quotations of the PX and WIG indices is the presentation of the values of annual returns recorded from the beginning of the publication of the indices until the time of the study (November 2024). Their formation is presented in the Fig. 1 below.




* In 1993 annual return for WIG index in Poland was around 1095%.

**Figure 1: Annual returns (in the closing prices) on the PX and WIG indices in the years 1991-2024**

Source: own calculation based on the Stooq.com (2024) Historical database, https://stooq.pl/q/d/?s=wig (Accessed: 7 November 2024).

The next step in the presented research procedure is to assign the annual returns of each index to one of the four years of the US presidential term and one of the five years of the presidential terms in the Czech Republic and Poland. To do this, it is necessary to indicate in which years each presidential election took place. These are presented in Table 1.

**Table 1: Dates of the presidential elections in the Czech Republic, Poland and the USA in 1991-2024**

| Year of the presidential elections in: | | |
|---|---|---|
| Czech Republic | Poland | USA |
| 1993 | 1995 | 1992 |
| 1998 | 2000 | 1996 |
| 2003 | 2005 | 2000 |
| 2008 | 2010 | 2004 |
| 2013 | 2015 | 2008 |
| 2018 | 2020 | 2012 |
| 2023 | | 2016 |
| | | 2020 |
| | | 2024 |

Source: Authors' own elaboration.

Based on the presented dates of presidential elections in each country, it is possible to determine the years of each term. It was assumed that due to the fact that the US president took office in January of the year following the elections held (Gonzalez, Astor, 2023), the first period of the presidential cycle was the following year, i.e. if the elections were held in 1992 then the presidential cycle began in the following year (1993). The last (fourth) year of the cycle, in turn, was 1996 (the year in which the next election took place). In the case of the presidential elections in Poland and the Czech Republic, the president took office the year they were held (Balicki, 2023; Wojnicki, 2023), so the date of their holding coincides with the beginning of the five-year presidential cycle.

Based on the annual returns of the PX and WIG indices presented in Fig. 1, summaries were created assigning their values to each year of the four-year presidential cycle in the US. Their distribution, along with the calculated mean and median, is included in tables 2 and 3. However, in order to verify whether the presented returns in each year of the US presidential term differed significantly from each other, it was necessary to verify the statistical significance of their variation.

**Table 2: Annual returns on the PX index in individual years of the US presidential cycle in the period (1993-2024)**

| Number of the year in the US presidential cycle | Annual returns | | | | | | | | **Mean** | **Median** |
|---|---|---|---|---|---|---|---|---|---|---|
| I | 111,71% | -8,21% | -17,53% | 42,73% | 30,19% | -4,78% | 16,99% | 38,84% | **26,24%** | **23,59%** |
| II | -20,99% | -20,41% | 16,75% | 7,87% | 9,62% | -4,28% | -8,50% | -15,73% | **-4,46%** | **-6,39%** |
| III | -23,56% | 24,23% | 43,06% | 14,24% | -25,61% | 1,02% | 13,08% | 17,67% | **8,01%** | **13,66%** |
| IV | 26,70% | -2,29% | 56,58% | -52,72% | 14,01% | -3,63% | -7,93% | 16,57% | **5,91%** | **5,86%** |
| H test statistic for Kruskal-Wallis test | | | | | **H=3,982955 pvalue =0,2633** | | | | | |

*$p$-value<0,05

Source: Authors' own elaboration.

**Table 3: Annual returns on the WIG index in individual years of the US presidential cycle in the period (1993-2024)**

| Number of the year in the US presidential cycle | Annual returns | | | | | | | | **Mean** | **Median** |
|---|---|---|---|---|---|---|---|---|---|---|
| I | 1095,37% | 2,27% | -21,99% | 33,66% | 46,85% | 8,06% | 23,17% | 21,52% | **151,11%** | **22,34%** |
| II | -39,92% | -12,77% | 3,19% | 41,60% | 18,77% | 0,26% | -9,50% | -17,08% | **-1,93%** | **-4,62%** |
| III | 1,51% | 41,33% | 44,92% | 10,39% | -20,83% | -9,62% | 0,25% | 36,54% | **13,06%** | **5,95%** |
| IV | 89,07% | -1,31% | 27,94% | -51,07% | 26,24% | 11,38% | -1,40% | 5,41% | **13,28%** | **8,39%** |
| H test statistic for Kruskal-Wallis test | | | | | **H=3,309659 pvalue =0,3463** | | | | | |

*$p$-value<0,05

Source: Authors' own elaboration.

As can be seen from the data presented in Tables 2 and 3 for both the PX index and the WIG index, the mean value of annual returns was highest in the first year of the US president's term. For the Czech broad market index, the mean value averaged 26.24% and the median 23.59%. In contrast, for the Polish index, the mean in those years was as high as 151.11% (which was the result of a one-time very high index return in 1993), and the

median was 22.34%. The median values for the indices studied were very similar for the initial year of the presidential cycle. On the other hand, the lowest values of annual returns were recorded (in both cases) for the second year of the US presidential cycle. In the case of the Czech broad market index, the mean value was -4.46%, and the median -6.39%. In contrast, for the Polish index, the mean in those years was as high as -1.93% and the median -4.62%. In the third and fourth years of the presidential cycle, for both the PX and WIG indices, the mean annual returns were positive, but significantly lower than in the year starting the cycle. The results obtained are quite different from those obtained in the researchers' initial findings on the U.S. Presidential Election Cycle Theory, in which the penultimate and final year of a president's term were characterized by the highest returns. In contrast, the lowest were recorded in the first year of taking office (Luksetich, 1980; Obradović, Tomić, 2017).

However, in none of the cases studied was the presence of sufficiently significant variation in annual returns across the years of the U.S. presidential cycle to establish statistical significance of the differences (H test statistic=3.982955 *p*-value=0.2633 for the PX index and H test statistic=3.309659 *p*-value=0.3463 for the WIG index). The highest level of differentiation (verified by Bonferroni's post-hoc test) occurs between year one and year two of the cycle (*p*-value=0.292 for the PX index, *p*-value=0.419 for the WIG index,), however, it still does not allow us to accept the alternative hypothesis of the test indicating the appearance of a statistically significant differentiation in the returns obtained. Based on the presented results, it can be concluded that the U.S. Presidential Election Cycle Theory was not observed for the Czech and Polish broad market indices.

In the next part of the research, the possible differentiation of annual returns according to the five-year presidential cycles occurring in the Czech Republic and Poland was verified. According to previous suggestions (Świder, 2019), the possible association of the financial market with political cycles should take place in relation to the date of local elections held in each country. Based on the annual returns of the PX and WIG indices presented in Fig. 1, statements were created assigning their values to individual years of the five-year presidential cycle occurring in the Czech Republic and Poland. Their breakdowns, along with the calculated mean and median, are included in Tables 4 and 5. As in the case of verifying the significance of the presidential cycle in the U.S., they include the results of statistical verification carried out using the Kruskal-Wallis (1952) median significance test along with the Bonferroni (1936) post-hoc test.

**Table 4: Annual returns on the PX index in individual years of the Czech presidential cycle in the period (1993-2024)**

| Number of the year in the US presidential cycle | Annual returns | | | | | | | **Mean** | **Median** |
|---|---|---|---|---|---|---|---|---|---|
| I | 111,71% | -20,41% | 43,06% | -52,72% | -4,78% | -8,50% | 17,67% | **-4,28%** | **-6,64%** |
| II | -20,99% | 24,23% | 56,58% | 30,19% | -4,28% | 13,08% | 16,57% | **22,73%** | **20,40%** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| III | -23,56% | -2,29% | 42,73% | 9,62% | 1,02% | -7,93% | **8,63%** | **1,02%** |
| IV | 26,70% | -17,53% | 7,87% | -25,61% | -3,63% | 38,84% | **-0,01%** | **-3,63%** |
| V | -8,21% | 16,75% | 14,24% | 14,01% | 16,99% | -15,73% | **9,25%** | **14,24%** |
| H test statistic for Kruskal-Wallis test | | | | | **H=1,206981 pvalue =0,8769** | | | |

*$p$-value<0,05

Source: Authors' own elaboration.

**Table 5: Annual returns on the WIG index in individual years of the Polish presidential cycle in the period (1995-2024)**

| Number of the year in the US presidential cycle | Annual returns | | | | | | **Mean** | **Median** |
|---|---|---|---|---|---|---|---|---|
| I | 1,51% | -1,31% | 33,66% | 18,77% | -9,62% | -1,40% | **6,93%** | **0,10%** |
| II | 89,07% | -21,99% | 41,60% | -20,83% | 11,38% | 23,02% | **20,37%** | **17,20%** |
| III | 2,27% | 3,19% | 10,39% | 26,24% | 23,17% | -17,08% | **8,03%** | **6,79%** |
| IV | -12,77% | 44,92% | -51,07% | 8,06% | -9,50% | 36,54% | **2,70%** | **-0,72%** |
| V | 41,33% | 27,94% | 46,85% | 0,26% | 0,25% | 5,41% | **20,34%** | **16,67%** |
| H test statistic for Kruskal-Wallis test | | | | | **H=1,806452 pvalue =0,7713** | | | |

*$p$-value<0,05

Source: Authors' own elaboration.

For the five-year presidential cycles that take place in the Czech Republic and Poland, the highest mean annual returns were recorded in the second year of the president's cycle. For the Czech broad market index, the mean was 22.73% and the median was 20.40%. In contrast, for the Polish index, the mean in those years was 20.37% and the median 16.67%. Similar (high) annual returns were also recorded in the last year of the incumbent president's term of office- the WIG index rose by an average of 20.34%, and the median increase was 16.67%. In contrast, the lowest mean annual returns were observed in the first year of the president's term in the Czech Republic (the mean return on the PX index was -4.28%, the median was -6.64%), while in Poland it was the fourth-to-last year (the mean return on the WIG index was 2.70%, and the median was 0.72%).

However (as with the grouping of returns according to the U.S. presidential cycle), in none of the cases studied was the presence of a significant enough variation in annual returns across the years of the presidential cycle in the Czech Republic and Poland to establish statistical significance of the differences (H test statistic=1.206981 $p$-value=0.8769 for the PX index and H test statistic=1.806452 $p$-value=0.7713 for the WIG index).

Based on the two presented research approaches based on the presidential cycle in the US and the presidential cycles in the Czech Republic and Poland, the considerations carried out do not allow us to accept the main hypothesis of this study. Depending on the year of the presidential term, the returns of broad market indices in the Czech Republic and Poland are not statistically significantly different. The results are consistent in both the situation of using calculations based on the president's cycle in the US and on the years of his term in the Czech Republic and Poland. The results obtained stand somewhat in opposition to the main studies verifying the issues of the impact of politics on the functioning of the financial market (Białkowski et. al, 2009; Eggen, Murakami Tse, 2010; Szymanski, Wojtalik, 2022; Bash, Al-Awadhi, 2023), which confirmed the existence of the U.S. Presidential Election Cycle Theory on emerging market stocks. It seems extremely important to further examine this issue from the point of view of other financial instruments listed on the Czech and Polish markets.

## 4. Discussion and conclusion

Over the years, many examples of groups of market anomalies can be distinguished in previous studies about global financial markets (Mahdian, Perry, 2002). One of them is the effect of the year, which in the majority of studies takes the form of the U.S. Presidential Election Cycle Theory, (Anzia, 2011; Smith, 2016). Initially occurring in the real estate market in the United States (Huang, 1985), the phenomenon began to be present in the financial market as well. In accordance with it, U.S. stock market in different years of the presidential term achieves different values of stock price returns (Hirsch, 2022).

The theory has also found attempts at verification in markets other than the US (Floros, 2008; Białkowski et. al., 2009, Deari, Koku, 2024), which justifies the application of similar considerations in this paper. Some novelty in the proposed approach is to undertake a two-pronged consideration based on the years of the four-year presidential election cycle in the US and the separate five-year presidential cycles taking place in the Czech Republic and Poland, respectively.

Based on calculated annual returns of broad market indices in the Czech Republic (PX) and Poland (WIG), it was pointed out that in the case of the U.S. Presidential Election Cycle Theory the highest returns were recorded in year one of its duration, and the lowest in year two. These results apply to both the PX and WIG indices. These results differ from those obtained in the researchers' initial findings, in which it was the penultimate and final year of a president's term that had the highest returns. In contrast, the lowest were recorded in the first year of taking office (Luksetich, 1980; Obradović, Tomić, 2017). Nevertheless, the values of annual returns in each of the four years of the presidential cycle were not characterized by statistically significant variation verified by the Kruskal-Wallis test (1952).

On the other hand, verifying the five-year presidential cycles occurring in the Czech Republic and Poland (Balicki, 2023; Wojnicki 2023), the highest mean annual returns of the country's broad market indices were recorded in the second year of the presidential government. In contrast, the lowest mean annual returns were observed in the first year of the president's term in the Czech Republic, while in Poland it was the fourth year. Similarly, as in the case of the verification of the U.S. Presidential Election Cycle Theory, statistically significant variation in the returns of national indices in individual years of

presidential cycles was not recorded. Consequently, the main hypothesis indicated at the beginning of the paper cannot be accepted. Depending on the year of the presidential cycle, the returns of broad market indices in the Czech Republic and Poland are not statistically significantly differentiated.

The presented research results carry certain implications for participants in the financial markets, who may pay attention to the existence of the possibility of taking into account factors of a political nature in the creation of their investment strategies. However, they also entail certain limitations due to the application of the adopted research procedure to only two major broad market indices listed on the Czech and Polish stock exchanges. It seems extremely important to extend it in the next scientific considerations to a larger group of financial instruments listed on the studied markets, which will enable verification of the conclusions presented in this study.

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