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Brand Political Positioning: Implications of the 2016 US Presidential Election

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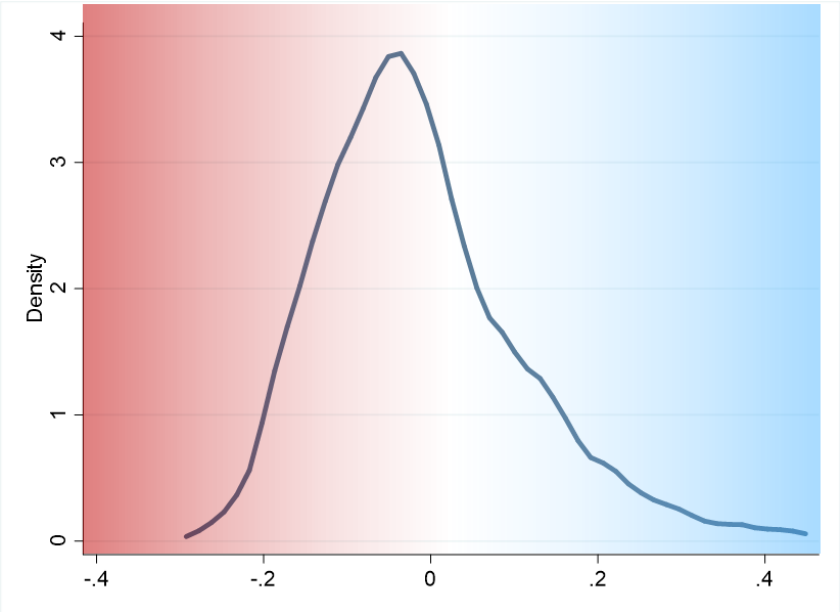
Figure 5. Distribution of PP Scores in the Study Sample (367 brands, Minkowski *p*=1.8)



Top Republican brands in 2016Q3	Top Democratic brands in 2016Q3
IDT	Google
Flagstar Bank	Apple
BP	Tesla
EarthLink	Microsoft
Sun Trust	Facebook
Tiffany & Company	Amazon.com
Xplore	Lockheed Martin
Prudential Insurance	Sony
Duke Energy	Western Digital
Belmond	State Street

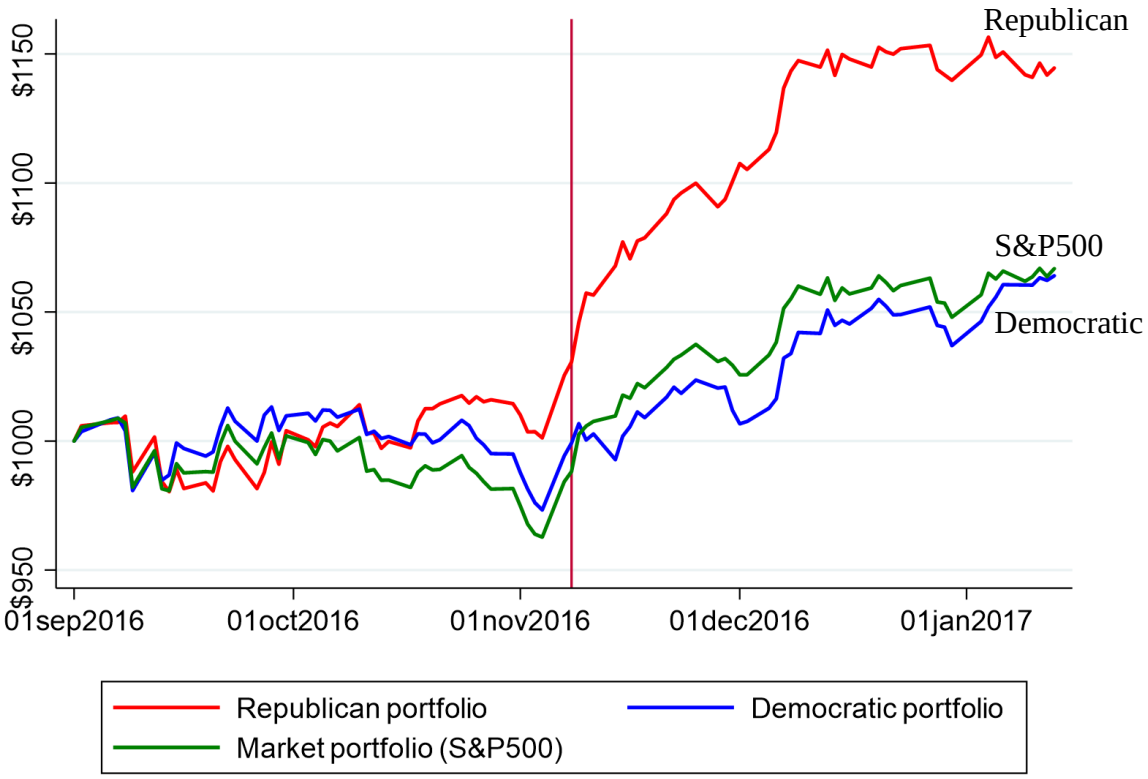
Empirical Analyses: Financial Impact of Brand Political Positioning

Model-Free Evidence

If PP has implications for firm performance, we should be able to observe its effects at the time of a political regime change. Figure 6 presents daily stock market performance of a $1,000 investment placed into one of the three portfolios on September 1, 2016. The green line represents the market (S&P500) portfolio performance. The red line represents performance of the Republican portfolio, which includes the top 125 Republican firms (bottom 33% of the PP score distribution in 2016Q3). The blue line represents performance of the top 125 Democratic firm portfolios (top 33% of the PP score distribution in 2016Q3).

Figure 6. Performance of Republican and Democratic Firm Portfolios

The graph presents portfolio performance for the Republican firms (lower 33% of the PP score distribution for 2016q3), Democratic firms (top 33% of the PP score distribution for 2016q3), and the S&P500 for September 2016-January 2017. The Republican and Democratic firm portfolios are formed based on the 2016Q3 BAV data and the PP with Minkowski *p*=1.8. Red vertical line denotes the election date (November 8, 2016).



We see no notable differences in performance of the three portfolios before the election date of November 8, 2016. Following the election, the Democratic portfolio immediately loses some value but later performs largely at par with the S&P500 portfolio (p=.15 for December 30, 2016). The portfolio of Republican firms, on the other hand, begins to outperform the S&P500 and Democratic portfolios after the election (p=.0041 and p=.0015, respectively, for December 30, 2016). Although the observed pattern is interesting, a formal empirical testing is needed to assess the significance and the economic impact of the effects suggested by this chart.

2016 Presidential Election Event Study: Base Model

The 2016 presidential election in the US offers an excellent context to test the economic relevance of PP to firm performance. The 2016 election outcome was to a large extent a surprise,

and the unexpected nature of the election outcome makes the event study method particularly suitable here. Event studies allow assessing the impact of an unexpected event (Republican win) on firm valuation. The observed change in the valuation reflects the change in the unbiased expectations of the firm's future performance (MacKinlay 1997).

We assess the financial impact of the brand PP using standard event study methodology. That is, we use an asset-pricing model to compute abnormal daily returns and examine the statistical significance of cumulative abnormal returns around the date of the 2016 presidential election. We report results based on Fama and French's (2015) five-factor model augmented with Carhart's (1997) momentum factor, but the choice of the specific asset-pricing model (e.g., market model, other Fama-French models) does not alter our results or conclusions.

For each firm included in our analyses, we estimate the following asset-pricing model in the [-254; -21] window preceding the announcement of the election results:

$$Ret_{it} - R_{Ft} = a_i + b_{i1} * MKTRF_t + b_{i2} * SMB_t + b_{i3} * HML_t + b_{i4} * UMD_t + b_{i5} * RMW_t + b_{i6} * CMA_t + e_{it}, \quad (4)$$

where Ret_{it} is the stock return of company *i*, R_{Ft} is the risk-free rate, $MKTRF_t$ is the market return, SMB_t is the difference in returns for small and large (market capitalization) firms, HML_t is the difference in returns for high- and low-value (book-to-market ratio) firms, UMD_t is the Carhart (1997) momentum factor, RMW_t is the difference in returns for robust and weak firms on the operating profitability, and CMA_t is the difference in returns for firms with conservative and aggressive investment portfolios. We use the estimated coefficients from this model to compute abnormal returns for each firm around the election date.

Table 3, Panel A, reports average daily abnormal returns for the [-10, 10] days around the election date for our sample as a whole and for two subsamples created with a median split on

our PP metric. We do not observe any consistent patterns prior to November 8, 2016. Following the election day, however, we see several consecutive days with significantly positive average daily abnormal returns for the firms with low PP (i.e., firms with a Republican brand image).

Next, we aggregate the daily abnormal returns over various event windows and compute cumulative abnormal returns in the $[\underline{w};\ \overline{w}]$ window as $\mathrm{CAR}_i^{[\underline{w},\overline{w}]} = \sum_{\underline{w}}^{\overline{w}} AR_{it}$. We estimate the following model to assess the implications of brand PP around the 2016 presidential election:

$$\begin{aligned}\mathrm{CAR}_i^{[\underline{w},\overline{w}]} = a_0 + a_1 PP_{i,2016q3}^{Rep} + a_2 FirmRepContrib_i + a_3 FirmDemContrib_i \\ + a_4 CEORepContrib_i + a_5 CEODemContrib_i + a_6 FirmTotalContrib_i \\ + \sum \gamma_n Control_n + \epsilon_i,\end{aligned} \quad (5)$$

where $PP_{i,2016q3}^{Rep}$ is the dummy variable equal to 1 if the 2016q3 measure of PP for firm *i* is in the bottom half of $PP_{i,2016q3}$ distribution, and 0 otherwise. $FirmRep(Dem)Contrib_i$ is the total value of financial contributions by firm *i* (i.e., its PACs, their individual members, employees, owners, and those individuals' immediate families) to the Republican (Democratic) Party and federal candidates in the 2012, 2014, and 2016 election cycles scaled by the firm's total assets. $FirmTotalContrib_i$ is the total value of all firm *i* contributions to political parties. $CEORep(Dem)Contrib_i$ is the total value of financial contributions by the CEO of firm *i* to the Republican (Democratic) Party and federal candidates in the 2012, 2014, and 2016 election cycles scaled by firm's total assets. We include CEO contributions as a separate predictor to address the impact of CEO political ideology on firm value (Kashmiri and Mahajan 2017).

We include several controls in our model. Age_i is the age of firm *i* as of 2016, obtained from public sources (e.g., annual reports, wikipedia.org). We include it to control for the potential association of more mature brands with the brand perceptions of *Traditional* and

Classic (significant descriptors of the Republican Party image) and because it shows a significant negative correlation with the firm and CEO financial contributions to the Democratic Party (Table 1, Panel B). We include industry controls to control for the potential perceptual association of a specific industry with a political party (e.g., finance-Republican) and any potential expectations of (un)favorable policy changes after the election.

We also include controls for major corporate events and announcements occurring during our event study window. For example, 69 firms in our sample announced earnings during the [1;10] event study window of November 7– November 23, 2016. We calculated and included a measure of earnings surprise ($Earnings\ surprise_i$) using the IBES dataset. Specifically, we computed the median percentage of earnings surprise (*[Actual EPS-Forecast EPS$_j$]/Forecast EPS$_j$*) across all analysts (*j*) issuing or revising their forecasts within 100 calendar days prior to the earnings announcement date.

We include controls for M&A activity and alliance announcements occurring during November 7–November 23, 2016. *M&A Acquiror Announcement$_i$* variable is an indicator of M&A announcement for acquirors. Sixteen firms were mentioned in an M&A announcement and designated as the acquirer. *M&A Target Announcement$_i$* is an indicator of M&A announcement for targets. Six firms were mentioned in M&A announcements and designated as the target. Finally, we also include an indicator for alliance announcements (*Alliance Announcement$_i$*). We have 35 firms announcing a new alliance during November 7–November 23, 2016. All these data come from the SDC Platinum.

Table 3, Panel B, reports the results of our analyses for [1;1], [1;3], [1;5], and [1;10] event windows. Consistent with Hypothesis 1, we find a significant differential in the stock market reaction depending on the value of PP in the 2016q3. The coefficients on $PP^{Rep}_{i,2016q3}$,

which estimate the differential between the firms with a Republican versus Democratic brand image (the base case of the Democratic brand image firms is captured in the constant), are positive and become more significant in the 10-day event window. Ten days after the election, we see a 1.7% value differential (p=.039) between firms with a Republican versus Democratic brand image. This effect is incremental and cannot be attributed to the other factors (e.g., industry affiliation, political contributions by the firm and its CEO).

Consistent with past research, and despite the relatively small sample of firms we are working with (N=367), we find the pattern of positive market valuation of firm and CEO donations to the winning (Republican) political party and a negative market valuation of firm and CEO donations to the losing (Democratic) political party. In our study sample, the estimates of *CEO Republican Contributions* are positive and highly significant, and the *Firm Republican Contributions* are positive and marginally significant (p=.058 in 10-day event window). The estimates of *Firm Democratic Contributions* are negative and significant (p=.025 in the 10-day window). We also find consistently negative estimates of *CEO Democratic Contributions*, but these estimates are not significant. Consistent with Shon (2010), we find a positive and significant market valuation of the overall (total) value of firm contributions to political parties and candidates: the estimates on *Firm Total Contributions* are all positive and highly significant. As expected, we also find a positive and significant market reaction to earnings announcements. The *Earnings Surprise* estimate is positive and highly significant in all event windows. *Alliance Announcement* has a positive and significant effect in our 10-day event window.

2016 Presidential Election Event Study: The Role of Consumer-Facing Firms

We have postulated that the positive market reaction might be driven by the expectations of a relative shift in demand to the products of firms whose brand image is aligned with the winning

political identity. One point of evidence to support or reject this proposition can be found by assessing the differential market reaction to PP of consumer-facing firms. We expand model (5) to isolate the effects of consumer- versus non-consumer-facing companies:

$$\begin{aligned} \mathrm{CAR}_i^{[\underline{w},\overline{w}]} = a_0 &+ \delta_1 ConsumerGoodsPP_{i,2016q3}^{Rep} \\ &+ \delta_2 NonConsumerGoodsPP_{i,2016q3}^{Rep} + \delta_3 NonConsumerGoodsPP_{i,2016q3}^{Dem} \\ &+ a_2 FirmRepContrib_i + a_3 FirmDemContrib_i + a_4 CEORepContrib_i \\ &+ a_5 CEODemContrib_i + a_6 FirmTotalContrib_i + \sum \gamma_n Control_n + \epsilon_i, \end{aligned} \quad (6)$$

where $(Non)ConsumerGoodsPP_{i,2016q3}^{Rep}$ is an indicator variable equal to 1 if firm *i* is (not) a consumer-facing firm and its $PP_{i,2016q3}^{Rep}$ is equal to 1, and 0 otherwise (i.e., this firm is (not) a consumer-goods firm with a Republican brand image). $NonConsumerGoodsPP_{i,2016q3}^{Dem}$ is equal to 1 if firm *i* is not a consumer-goods firm and its $PP_{i,2016q3}^{Rep}$ indicator is equal to 0 (i.e., this firm is a non-consumer-goods firm with a Democratic brand image). Two independent raters identified 264 firms in our sample as consumer-facing companies. Any initial discrepancies in their classifications were resolved through discussion and further investigation of firms' business activities. All other variables are defined as previously. The coefficients δ_1, δ_2, and δ_3 in this formulation capture the difference between the base case of consumer-facing firms with a Democratic brand image and the other three firm groupings. We expect δ_1 to be positive.

Table 3, Panel C, presents results of estimating model (6). Consistent with our arguments and Hypothesis 2, we find a significant value differential between the consumer-facing firms with Republican versus Democratic brand images. Ten days after the election, the Republican consumer-facing firms are valued 2.5% more than the Democratic consumer-facing firms. We find no other significant differences across the four groupings. Overall, the pattern of results

reported in Panel C suggests that the consumer-facing firms are driving the findings reported in Table 3, Panel B.

Demand Effects Following the 2016 Presidential Election: Dynamic Fixed-Effects Model

A more direct test of the mechanism underlying the positive market reaction to the corporate brand image alignment with the image of the winning (vs. losing) political party can be obtained by examining the demand effects following the Republican presidential win in 2016. We can examine the dynamics of firm sales in the period immediately following the election. To do so, we specify a fixed-effects dynamic panel data model (7):

$$Sales_{iq} = a_i + \lambda_{q,\,SIC} + \sum_{j=1}^{4} \phi_j Sales_{i(q-j)} + \beta_q Qtr_q * PP^{Rep}_{i,2016q3} + \gamma_q Qtr_q * PP^{Dem}_{i,2016q3} + \epsilon_{iq}, \quad (7)$$

where $Sales_{iq}$ is the size-adjusted value of firm *i* sales in quarter *q* (Sales/TotalAssets) and $Sales_{i(q-j)}$ are its lagged values. $PP^{Rep}_{i,2016q3}$ ($PP^{Dem}_{i,2016q3}$) is the dummy variable equal to 1 if the 2016q3 measure of PP for firm *i* is in the bottom (top) half of $PP_{i,2016q3}$ distribution, and 0 otherwise. a_i is the firm-specific fixed effect, $\lambda_{q,\,SIC}$ are quarter-industry-specific fixed time effects, and Qtr_q are quarter-specific indicators. Coefficients β_q and γ_q on the interactions of the specific time period with the firm PP (Republican or Democratic) are our key estimates of interest. In the model (7) specification, these estimates capture systematic deviations (if any) in firm sales levels from the expected firm-specific baseline sales expected given the firm's historical sales levels, its recent performance, and the industry-quarter-specific operating conditions (the period-specific industry controls adjust for any variation in sales due to economic factors and policy effects that apply to a particular industry in a given quarter). We do not include $PP^{Rep}_{i,2016q3}$ and $PP^{Dem}_{i,2016q3}$ as independent explanatory variables in this specification, because they are subsumed in the firm-specific fixed effects (there is no variation in these

variables over time for a given firm). We use the Blundell-Bond (1998) system GMM approach with Windmeijer (2005) correction to estimate model (7).

Table 4, Panel A, presents results of estimating model (7). A total of 343 firms in our sample have quarterly sales and total assets data available in the Compustat database for these analyses. Our estimates of the autoregressive structure in the sales series are fully consistent with past research. We find the first and fourth lag of size-adjusted quarterly sales (e.g., 0.319 and 0.643, respectively, in column 1) to be the strongest predictors of current-quarter sales (e.g., similar to 0.28 and 0.67, respectively, in Mizik 2014, p. 698).

Column 1 presents the results of the model focusing on the one-year period following the 2016 election. $Qtr_{2016q4-2017q3}$ in this model is defined as equal to 1 in the four quarters following the election (2016q4-2017q3), and 0 otherwise. $Qtr_{q>2017q3}$ is equal to 1 in the subsequent quarters (after 2017q3), and 0 otherwise. The estimates on their interactions with $PP_{i2016q3}^{Rep}$ and $PP_{i2016q3}^{Dem}$ capture systematic deviations of sales series from their expected levels for these periods. We see no significant deviations of sales for firms with the Republican brands (estimates of $PP_{i2016q3}^{Rep}$ interactions with the time indicators for one year after the election and for the subsequent period after 2017q3 are both small and insignificant). We do, however, find a significant decline in sales for firms with the Democratic-image brands. In the year immediately following the 2016 election, quarterly size-adjusted sales of these firms are -0.012 lower (p= .005) than they should have been based on the firm- and time-specific industry dynamics. They remain lower in the subsequent (post-2017q3) quarters (-0.017, p=.011).

What is the economic significance of this estimated effect in terms of actual sales? A median firm in our sample has sales of $2,001M and total assets of $10,502M, resulting in .191 size-adjusted sales (Sales/Total Assets). The estimated effect of -0.012 represents a 6.3%

reduction in firm size-adjusted sales, or a $126M drop in quarterly sales for our median firm for each of the 2016q4-2017q3 quarters.

Column 2 in Table 4, Panel A, presents the results of the model decomposing the one-year average effect into four individual quarters, allowing us to examine the dynamics of firm sales more precisely. Again, we find no significant anomalies in the sales series for firms with Republican brands following the 2016 election. But we do find a large and significant drop in the sales series occurring in 2016q4 (i.e., immediately after the election and before inauguration) for firms with Democratic-image brands. This finding is significant: it supports a consumer-driven mechanism (in contrast to a policy-driven effect). We also see negative and marginally significant sales effects in 2017q1 and 2017q2. Interestingly, although we find significant negative sales effects for firms with brands reflecting the losing (Democratic) party image, we are not able to isolate significant positive effects for the winning (Republican) party brands. This finding is in line with related work by Knight (2006), who finds a greater loss for firms in Gore-favored industries compared to gains for Bush-favored industries in the 2004 election.

Demand Effects Following the 2016 Presidential Election: Role of Consumer-Facing Firms

If the shift in consumer preferences is driving the observed changes in sales, the sales effect for consumer-facing firms should be more pronounced. We expand model (7) to isolate the effects for consumer-facing and business-to-business firms:

$$\begin{aligned} Sales_{iq} = {} & a_i + \lambda_{q,\,SIC} + \textstyle\sum_{j=1}^{4} \phi_j Sales_{i(q-j)} \\ & + \beta_q Qtr_q * ConsumerGoodsPP^{Rep}_{i,2016q3} + \gamma_q Qtr_q * ConsumerGoodsPP^{Dem}_{i,2016q3} \\ & + \eta_q Qtr_q * NonConsumerGoodsPP^{Rep}_{i,2016q3} + \delta_q Qtr_q * NonConsumerGoodsPP^{Dem}_{i,2016q3} + \epsilon_{iq}, \end{aligned} \tag{8}$$

where $(Non)ConsumerGoodsPP^{Rep}_{i,2016q3}$ is equal to 1 if firm *i* is (not) a consumer-goods firm and its $PP^{Rep}_{i,2016q3}$ indicator is equal to 1 (i.e., this firm is (not) a consumer-goods firm with a

Republican brand image). $(Non)ConsumerGoodsPP_{i,2016q3}^{Dem}$ is an indicator variable equal to 1 if firm *i* is (not) a consumer goods firm and its $PP_{i,2016q3}^{Dem}$ is equal to 1, and 0 otherwise (i.e., this firm is (not) a consumer goods firm with a Democratic brand image). All other variables are defined as previously.

Table 4, Panel B, presents the results of estimating model (8). Our estimates of the autoregressive structure in sales series (not reported for brevity) are unchanged and we find no significant deviations of sales series for the non-consumer-goods firms. For the consumer-goods firms, we find larger and significantly negative sales for firms with a Democratic brand image after the election and, importantly, in the fourth quarter of 2016 (i.e., immediately after the election). These findings further support the consumer-driven mechanism we proposed.

We undertook multiple sensitivity tests to ensure the validity of our model. For example, we examined the sales series in the period preceding the election and found no differences between the Republican and Democratic firms and no systematic deviations from expected levels. We tested expanded models with additional controls (e.g., firm operating expenditures, R&D, SG&A, goodwill, etc.), and found our results generally unaffected by their inclusion.

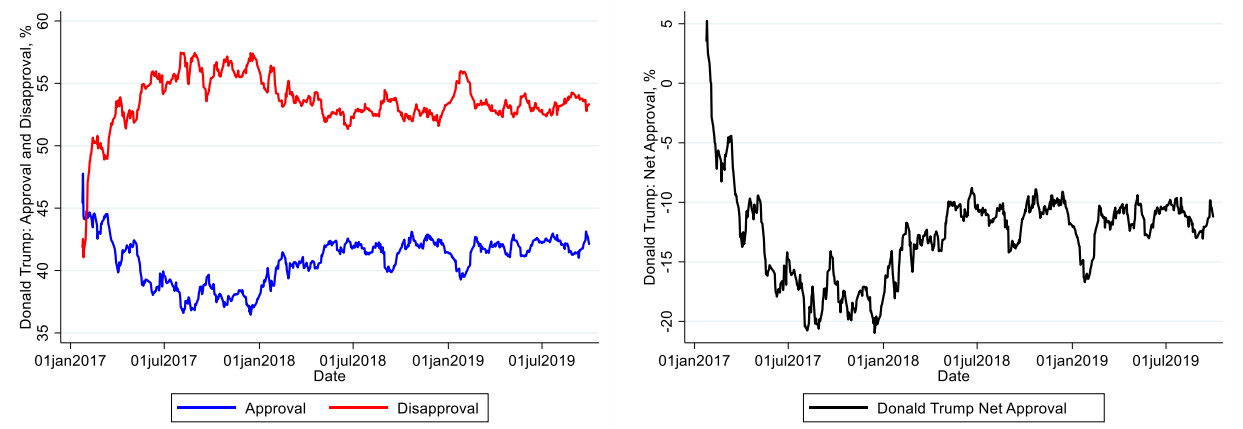
Presidential Net Approval Ratings Post-Inauguration: Calendar-Time Portfolio Analysis

We extend our analyses of brand image alignment with the winning/ruling political identity to a more dynamic setting with high(er)-frequency data. If our reasoning about the effects of brand PP on consumer preferences and behavior is valid, we should be able to observe these effects in other settings and, possibly, even with small changes in public sentiment. We examine the change in firm valuation as a function of public approval of the new administration's performance. Do public perceptions of the key political entities affect future financial performance (as reflected in their stock market valuation) of the firms whose brands are similar

to the brand images of these entities? We reason that as public opinion shifts, so will the consumer tastes for the commercial brands perceptually associated with these political entities.

We obtain daily polling data on presidential approval/disapproval for January 7, 2017–September 30, 2019, and examine whether President Trump's approval ratings affect the valuation of firms whose brands are more similar to the Donald Trump (vs. the Democratic Party) brand. We use quarterly data from BAV to compute a PP metric with the Donald Trump versus the Democratic Party reference brands. The daily presidential approval and disapproval ratings data come from fivethirtyeight.com. These data aggregate ratings across multiple national polls. The approval and disapproval are tracked separately (Figure 7). We use the *Net Approval* (the difference between approval and disapproval score) as our variable of interest and include it as an additional risk factor in a standard calendar-time portfolio model.

Figure 7. Donald Trump Daily Approval, Disapproval, and Net Approval Ratings



We use the calendar-time portfolio method. That is, we form value-weighted portfolios of firms based on the *PP(Trump-Democratic Party)* score: the top 33% of firms on the PP distribution are placed in the Democratic PP portfolio and the bottom 33% are placed in the Donald Trump PP portfolio. We rebalance these portfolios every quarter as the new BAV data become available. We have an average of 115 brands in each portfolio in each quarter. Then, we

estimate the Fama and French (2015) five-factor asset-pricing model augmented with momentum (Carhart 1997) and three lags (Lewellen and Nagel 2006 correction for high-frequency data) for each portfolio. Because of the quarterly rebalancing, the composition of the portfolios changes every quarter, and their risk profile changes over time. To address the changing risk profile of the portfolios, we allow the risk factor loadings to vary over time (Jacobson and Mizik 2009):

$$\begin{aligned} Ret_{pt} - R_{Ft} = a_p &+ \sum_{\tau=0}^{3} b_{1pq\tau} * MKTRF_{t-\tau} + \sum_{\tau=0}^{3} b_{2pq\tau} * SMB_{t-\tau} \\ &+ \sum_{\tau=0}^{3} b_{3pq\tau} * HML_{t-\tau} + \sum_{\tau=0}^{3} b_{4pq\tau} * UMD_{t-\tau} + \sum_{\tau=0}^{3} b_{5pq\tau} * RMW_{t-\tau} \\ &+ \sum_{\tau=0}^{3} b_{6pq\tau} * CMA_{t-\tau} + \gamma_p(NetApproval_t - NetApproval_{t-1}) + e_{pt}, \end{aligned} \quad (9)$$

where $(Ret_{pt} - R_{Ft})$ is the portfolio *p* return minus the risk-free return. a_p is the Alpha estimate for portfolio p. $MKTRF_{t-\tau}$, $HML_{t-\tau}$, $UMD_{t-\tau}$, $RMW_{t-\tau}$, and $CMA_{t-\tau}$ are the risk factors and their three lags. Risk factor loadings $b_{pq\tau}$ vary by quarter. $(NetApproval_t - NetApproval_{t-1})$ is first-order change in the president's *Net Approval* ratings, and γ is our key estimate of interest.

Table 5, Panel A, reports results of estimating model (9). Consistent with our arguments, we find that the value of the portfolio with Donald Trump–like brands increases (.018, p=.028) and the value of the portfolio with Democratic Party–like brands decreases (-.020, p=.001) with increases in the presidential net approval ratings. The differential between the Donald Trump and Democratic PP portfolios is also highly significant (p=.008). Interestingly, we also find a small mispricing of Trump-like firms: the estimate of the portfolio Alpha is small, positive, and significant (p=.032). This estimate accrues to a 3.8% annual return ($[1+0.00015]^{250}$ -1).

Table 5, Panel B, reports model (9) results for consumer-facing firms. We find a similar pattern of results. The positive estimate of presidential net approval ratings is somewhat more significant, and the negative effect for the Democratic Party–like brands, still negative, becomes insignificant. The Alpha for the Trump-like portfolio is still positive and significant (p=.006).

In our sensitivity analyses, we tested the presidential *Approval* and *Disapproval* ratings separately and found that the *Disapproval* ratings have a stronger signal and association with portfolio returns than the *Approval* ratings. We also tested whether other factors can be affecting these results. For example, we formed our portfolios based on the PP measure adjusted for these factors. That is, we first regressed *PP(Trump vs. Democratic Party)* scores on firm observables, such as industry affiliation, political contributions, firm age, and so on, and used the residuals from this regression to form our portfolios. Our findings hold.

Sensitivity Analyses

We undertook multiple sensitivity analyses for our event study, sales, and CTP models, and found that our findings are robust. For example, we tested the robustness of our findings with respect to the Minkowski *p* and found results stable around $p = 1.8$. We also tested a restricted set of BAV items for computing PP measures (eliminating those we judged as less descriptive of personality characteristics), and found our results are stable. Our event study findings hold when we restrict our sample to firms with non-zero firm donations to political parties (265 observations): the effect of PP is still significant, and the estimated effects of donations become more significant in this smaller sample. We examined and found no differences in abnormal returns in the days preceding the election [-10 to -1].

Our sales findings are robust to Arellano-Bond's (1991) test for serial correlation, starting year of the estimation sample, the number of lagged IVs used, and the value of Minkowski *p* around 1.8. The system GMM we use for estimating models (7) and (8) requires two specific assumptions to hold. A condition for consistency is the absence of autocorrelation in errors of orders higher than one. This assumption is testable with Arellano and Bond's (1991) test for serial correlation. As we report in Table 4, this test is satisfied. Another assumption refers to the

initial conditions. Lagged IVs are valid only if time-invariant fixed effect a_i is uncorrelated with the first difference in panel i ($\Delta sales_{i2}$). We varied the starting year of the estimation data sample to validate this assumption. Our results are not sensitive to the data start year. We also find the results we report are not sensitive to the number of lags used as IVs. We always use "collapse" option (Stata xtabond2 routine) for the lagged IVs (Roodman 2009) to prevent instrument proliferation and keep the number of IVs small (14 to 30). With 343 panels, our largest IV set is more conservative than conventional rule of thumb (number of IVs $\leq$ number of panels).

Our calendar-time portfolio results are stable across different lags of the Lewellen-Nagel correction, asset-pricing model, and systematically varying parameter specifications.

Conclusion

Brand positioning questions have received little academic attention in the marketing literature in recent years. We argue this area is an important and impactful one to explore.

We propose a construct of brand political positioning (perceptual closeness of a commercial brand to the Republican versus Democratic Party's brand image) and show its economic significance for firm valuation and sales. We also propose a mechanism to explain the observed effects on firm valuation and sales—consumers' shifting preferences toward (away from) the brands perceptually associated with the winning (losing) political party. We show supporting evidence for the proposed mechanism: the valuation effects are stronger for consumer-facing firms, the sales react immediately after the election (before inauguration), and the firm value is tied to the public sentiment toward the political entity to which the commercial brand is perceptually similar.

Table 1. Summary Statistics

Table 1 Panel A. Descriptive Statistics

	N	Mean	SD	P5	P50	P95
PP	4,496	0.040	0.175	-0.325	0.062	0.348
Firm Rep Contributions ($)	367	882,452	1,821,947	0	90,000	5,322,022
Firm Dem Contributions ($)	367	642,957	1,266,315	0	103,305	3,463,116
CEO Rep Contributions ($)	367	3,083	14,578	0	0	13,700
CEO Dem Contributions ($)	367	1,778	7,529	0	0	10,600
Firm Age in 2016	367	68.247	49.629	12	50	165
Total Assets ($M)	17,988	94,175	297,252	332.200	10,502	361,402
Sales Intensity	17,988	0.254	0.199	0.014	0.211	0.618
Daily Stock Returns	428,510	0.000	0.023	-0.031	0.000	0.029
President Trump's Net Approval	677	-0.127	0.038	-0.192	-0.118	-0.071

Table 1 Panel B. Cross-Sectional Correlations, 2016Q3

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) PP	1.00							
(2) Firm Rep Contributions[a]	-0.05	1.00						
(3) Firm Dem Contributions[a]	0.01	0.80***	1.00					
(4) CEO Rep Contributions[a]	-0.03	0.12**	0.07	1.00				
(5) CEO Dem Contributions[a]	-0.01	0.15***	0.18***	0.04	1.00			
(6) Firm Age in 2016	-0.08	-0.05	-0.09*	-0.08	-0.13**	1.00		
(7) Total Assets	-0.03	-0.07	-0.08	-0.03	-0.06	0.25***	1.00	
(8) Sales Intensity	-0.02	0.11**	0.01	0.12**	0.07	-0.22***	-0.28***	1.00

[a] Firm and CEO contributions are scaled by firm total assets. *** p<0.01, ** p<0.05, * p<0.1

Table 1 Panel C. Variable Definitions

Variable Name	Variable Definition, Data Source, Frequency
PP	Brand political positioning, relative distance to Republican vs. Democratic Party brand image calculated as the weighted Minkowski distance (p=1.8) across 48 brand image attributes. Y&R BAV, 2016Q3-2019Q3, quarterly.
Firm Republican (Democratic) Contributions	Total contributions from PACs, individuals, and soft-money donors, giving $200 or more, to federal candidates and political parties, as reported to the Federal Election Commission and compiled by the Center for Responsive Politics. The organizations themselves did not donate; rather, the money came from the organizations' PACs, their individual members, employees, owners, and those individuals' immediate families. Totals include firm subsidiaries and affiliates. opensecrets.org, 2012, 2014, and 2016 election cycles.
CEO Republican (Democratic) Contributions	Total contributions by the company CEO to the Republican (Democratic) Party entities in the 2012, 2014, and 2016 election cycles. Federal Election Commission (fec.gov).
Firm Age in 2016	Public sources, e.g., company websites, Wikipedia.
Total Assets	ATQ data item. COMPUSTAT, 2005Q1-2019Q3, quarterly.
Sales Intensity	SALEQ/ATQ. COMPUSTAT, 2005Q1-2019Q3, quarterly.
Stock Returns	CRSP, October 28, 2015–September 30, 2019, daily.
President Trump's Net Approval	Net Approval is the difference between the approval and disapproval ratings, which are calculated across all available polls, accounting for each poll's quality, recency, sample size, and partisan lean. Sourced from fivethirtyeight.com for January 23, 2017–September 30, 2019, daily.

Table 2. Key Brand Image Descriptors

Table presents top three descriptors of brand image for political parties, presidential candidates, and a small subset of commercial brands in 2016Q3.

	Top attribute	2nd-Top attribute	3rd-Top attribute
Parties and Candidates:			
Republican Party	Arrogant	Unapproachable	Restrained
Democratic Party	Arrogant	Unapproachable	Progressive
Donald Trump	Arrogant	Unapproachable	Daring
Hillary Clinton	Arrogant	Unapproachable	Intelligent
Commercial Brands:			
Apple	Progressive	Innovative	Visionary
BP	Arrogant	Carefree	Straightforward
EarthLink	Simple	Different	Rugged
IDT	Restrained	Independent	Different
Lockheed Martin	Visionary	Progressive	Innovative
Microsoft	Innovative	Intelligent	Visionary
Tesla	Progressive	Innovative	Different

Table 3. Event Study Analyses

Table 3. Panel A. Average Abnormal Daily Stock Returns around 2016 Election

Table presents daily average abnormal returns (p-values) in the [-10; 10] window around the 2016 presidential election (November 8, 2016) for the full sample and two subsamples based on the median split on the political positioning metric calculated from 2016q3 BAV data.

			Democratic subsample $PP_{i2016q3}^{Dem} = 1$		Republican subsample $PP_{i2016q3}^{Dem} = 0$	
Day	Full Sample		$(PP_{i2016q3} > median(PP_{i2016q3})$		$(PP_{i2016q3} < median(PP_{i2016q3})$	
[-10]	-0.003	(0.014)	-0.003	(0.056)	-0.002	(0.113)
[-9]	0.002	(0.228)	0.001	(0.636)	0.002	(0.237)
[-8]	0.000	(0.896)	0.001	(0.734)	0.000	(0.899)
[-7]	0.006	(0.000)	0.005	(0.000)	0.007	(0.000)
[-6]	0.001	(0.541)	0.000	(0.919)	0.001	(0.479)
[-5]	-0.001	(0.533)	0.000	(0.850)	-0.001	(0.488)
[-4]	0.001	(0.405)	0.002	(0.258)	0.000	(0.913)
[-3]	0.002	(0.137)	0.001	(0.365)	0.002	(0.236)
[-2]	0.000	(0.851)	0.000	(0.899)	0.000	(0.890)
[-1]	-0.001	(0.286)	-0.003	(0.033)	0.000	(0.996)
[0] Nov. 8, 2016	-0.001	(0.331)	-0.002	(0.371)	-0.001	(0.629)
[1]	**-0.004**	(**0.007**)	-0.003	(0.223)	**-0.006**	(**0.007**)
[2]	**0.003**	(**0.047**)	0.001	(0.775)	**0.006**	(**0.014**)
[3]	**0.002**	(**0.074**)	0.001	(0.665)	**0.004**	(**0.060**)
[4]	**0.004**	(**0.002**)	0.001	(0.527)	**0.007**	(**0.001**)
[5]	-0.002	(0.099)	-0.001	(0.603)	-0.003	(0.065)
[6]	-0.001	(0.440)	0.000	(0.846)	-0.001	(0.370)
[7]	0.002	(0.025)	0.001	(0.356)	0.003	(0.032)
[8]	-0.002	(0.048)	-0.003	(0.060)	-0.001	(0.369)
[9]	-0.002	(0.016)	-0.003	(0.088)	-0.002	(0.065)
[10]	0.003	(0.012)	0.003	(0.078)	0.003	(0.074)

Table 3. Panel B. Base Model

The table presents regression of the cumulative abnormal returns in the event windows immediately following the 2016 presidential election.

VARIABLES	(1) CAR[1,1]	(2) CAR[1,3]	(3) CAR[1,5]	(4) CAR[1,10]
Constant	-0.002	-0.006	-0.006	-0.009
	(0.628)	(0.312)	(0.359)	(0.280)
$PP_{i,2016q3}^{Rep}$	-0.001	0.010*	0.011*	0.017**
	(0.666)	(0.083)	(0.098)	(0.039)
Firm Republican Contributions[a]	0.006	-0.019	0.025	0.091*
	(0.695)	(0.541)	(0.436)	(0.058)
Firm Democratic Contributions[a]	-0.026	-0.037	-0.071*	-0.134**
	(0.173)	(0.387)	(0.098)	(0.025)
Firm Total Contributions	0.002***	0.003***	0.003***	0.002**
	(0.001)	(0.000)	(0.000)	(0.032)
CEO Republican Contributions[a]	0.146***	0.297***	0.558***	0.750***
	(0.000)	(0.000)	(0.000)	(0.001)
CEO Democratic Contributions[a]	-0.161	-0.481	-0.431	-1.423
	(0.815)	(0.723)	(0.794)	(0.314)
Firm Age[b]	-0.001	-0.007	-0.007	-0.009
	(0.818)	(0.223)	(0.302)	(0.242)
Earnings Surprise	0.018**	0.065***	0.076***	0.100***
	(0.025)	(0.003)	(0.001)	(0.001)
M&A Target Announcement	-0.012	-0.024	-0.027	0.008
	(0.169)	(0.218)	(0.328)	(0.877)
M&A Acquiror Announcement	0.015*	0.017	0.017	0.013
	(0.073)	(0.106)	(0.219)	(0.420)
Alliance Announcement	0.003	0.015*	0.006	0.025**
	(0.386)	(0.073)	(0.453)	(0.050)
Observations	367	367	367	367
R-squared	0.061	0.096	0.080	0.090
R-squared adjusted	0.0321	0.0678	0.0515	0.0615

$PP_{i,2016q3}^{Rep}$ is the indicator variable for firm *i* equal to 1 if $PP_{i,2016q3}$ is in the bottom half of its distribution (i.e., this firm has a Republican brand image). *Firm Republican (Democratic) Contributions* is the total value of firm contributions to Republican (Democratic) federal candidates and the party in the 2012, 2014, and 2016 election cycles (firms themselves did not donate; rather, the money came from the their PACs, employees, owners, and those individuals' immediate families) scaled by firm total assets. *Firm Total Contributions* is the total value of all firm contributions to political parties and federal candidates. CEO Republican (Democratic) Contributions is the total value of financial contributions by the CEO of firm *i* to the Republican (Democratic) Party and federal candidates in the 2012, 2014, and 2016 election cycles scaled by the firm's total assets. Firm Age is firm *i*'s age as of 2016. *Earnings Surprise* is the median percentage of earnings surprise calculated for firms announcing earnings during November 7, 2016–November 23, 2016, calculated across all analysts issuing or revising their forecasts within 100 calendar days prior to the earnings announcement date. *M&A Target*, *M&A Acquiror*, and *Alliance Announcement* variables are indicator variables for M&A acquirer and target announcements and for alliance announcements issued for firms in our sample during Nov. 7, 2016–Nov. 23, 2016. CARs are adjusted for industry affiliation. Robust p values in parentheses.

([a]) estimates are scaled by 1,000; ([b]) estimates are scaled by 100 for exposition. *** p<0.01, ** p<0.05, * p<0.1.

Table 3. Panel C. The Role of Consumer-Facing Firms Model

The table presents an expanded regression of the cumulative abnormal returns in the event windows immediately following the 2016 presidential election.

VARIABLES	(5) CAR[1,1]	(6) CAR[1,3]	(7) CAR[1,5]	(8) CAR[1,10]
Constant	-0.002	-0.007	-0.007	-0.011
	(0.595)	(0.242)	(0.309)	(0.197)
$ConsumerGoods \times PP_{i,2016q3}^{Rep}$	0.000	0.014**	0.016*	0.025**
	(0.893)	(0.028)	(0.051)	(0.012)
$NonConsumerGoods \times PP_{i,2016q3}^{Rep}$	-0.006	0.002	0.002	0.003
	(0.253)	(0.869)	(0.853)	(0.797)
$NonConsumerGoods \times PP_{i,2016q3}^{Dem}$	0.000	0.003	0.003	0.008
	(0.959)	(0.720)	(0.783)	(0.482)
Firm Republican Contributions[a]	0.011	-0.009	0.036	0.108**
	(0.490)	(0.780)	(0.292)	(0.029)
Firm Democratic Contributions[a]	-0.028	-0.041	-0.075*	-0.140**
	(0.152)	(0.348)	(0.085)	(0.022)
Firm Total Contributions	0.002***	0.003***	0.003***	0.002**
	(0.000)	(0.000)	(0.000)	(0.014)
CEO Republican Contributions[a]	0.137***	0.277***	0.537***	0.717***
	(0.000)	(0.001)	(0.000)	(0.001)
CEO Democratic Contributions[a]	-0.179	-0.538	-0.487	-1.534
	(0.791)	(0.689)	(0.765)	(0.272)
Firm Age[b]	-0.001	-0.007	-0.007	-0.009
	(0.819)	(0.218)	(0.302)	(0.231)
Earnings Surprise	0.019**	0.065***	0.076***	0.099***
	(0.027)	(0.003)	(0.001)	(0.001)
M&A Target Announcement	-0.013	-0.025	-0.028	0.006
	(0.156)	(0.216)	(0.322)	(0.901)
M&A Acquiror Announcement	0.014*	0.016	0.015	0.010
	(0.087)	(0.151)	(0.275)	(0.545)
Alliance Announcement	0.003	0.015*	0.006	0.024**
	(0.399)	(0.073)	(0.460)	(0.045)
Observations	367	367	367	367
R-squared	0.065	0.101	0.084	0.098
R-squared adjusted	0.0310	0.0682	0.0507	0.0648

$ConsumerGoods \times PP_{i2016q3}^{Rep}$ is an indicator variable equal to 1 if firm *i* is a consumer-goods firm and its $PP_{i2016q3}^{Rep}$ is equal to 1, and 0 otherwise (i.e., this firm is a consumer-goods firm with a Republican brand image). $NonConsumerGoods \times PP_{i2016q3}^{Dem}$ is an indicator variable that is equal to 1 if the firm *i* is not a consumer-goods firm and its $PP_{i2016q3}^{Dem}$ indicator is equal to 1 (i.e., this firm is a non-consumer goods firm with a Democratic brand image). $NonConsumerGoods \times PP_{i2016q3}^{Rep}$ is an indicator variable that is equal to 1 if the firm *i* is not a consumer goods firm and its $PP_{i2016q3}^{Dem}$ indicator is equal to 0 (i.e., this firm is a non-consumer goods firm with a Republican brand image). All other variables are as defined previously in Table 3, Panel B. Robust p values in parentheses. ([a]) estimates are scaled by 1,000; ([b]) estimates are scaled by 100 for exposition. *** p<0.01, ** p<0.05, * p<0.1.

Table 4. Sales Dynamics

Table 4. Panel A. Sales Performance Following 2016 Election

Table presents results of the two-step Blundell-Bond (1998) system GMM estimation of model (7) with Windmeijer (2005) correction.

VARIABLES	(1)		(2)	
Constant	0.002	(0.344)	0.001	(0.482)
$Sales_{i(q-1)}$	0.319***	(0.000)	0.318***	(0.000)
$Sales_{i(q-2)}$	0.098**	(0.021)	0.098**	(0.023)
$Sales_{i(q-3)}$	-0.009	(0.783)	-0.009	(0.783)
$Sales_{i(q-4)}$	0.643***	(0.000)	0.643***	(0.000)
$PP^{Rep}_{i2016q3} \times Qtr_{2016q4-2017q3}$	-0.004	(0.161)		
$PP^{Rep}_{i2016q3} \times Qtr_{2016q4}$			-0.004	(0.179)
$PP^{Rep}_{i2016q3} \times Qtr_{2017q1}$			-0.002	(0.616)
$PP^{Rep}_{i2016q3} \times Qtr_{2017q2}$			-0.005	(0.204)
$PP^{Rep}_{i2016q3} \times Qtr_{2017q3}$			-0.003	(0.396)
$PP^{Rep}_{i2016q3} \times Qtr_{q>2017q3}$	-0.007	(0.122)	-0.005	(0.249)
$PP^{Dem}_{i2016q3} \times Qtr_{2016q4-2017q3}$	-0.012***	(0.005)		
$PP^{Dem}_{i2016q3} \times Qtr_{2016q4}$			-0.011**	(0.012)
$PP^{Dem}_{i2016q3} \times Qtr_{2017q1}$			-0.009*	(0.054)
$PP^{Dem}_{i2016q3} \times Qtr_{2017q2}$			-0.010*	(0.056)
$PP^{Dem}_{i2016q3} \times Qtr_{2017q3}$			-0.010	(0.125)
$PP^{Dem}_{i2016q3} \times Qtr_{q>2017q3}$	-0.017**	(0.011)	-0.013**	(0.034)
Observations	17,988		17,988	
Number of firms	343		343	
AB test p-value	0.836		0.846	
Number of IVs	14		20	
F-stat	60.43		37.94	

Qtr_q is an indicator variable equal to 1 in quarter q, and 0 otherwise. $Qtr_{2016q4-2017q3}$ is an indicator variable equal to 1 if the quarter is 2016q4, 2017q1, 2017q2, or 2017q3, and 0 otherwise. $Qtr_{q>2017q3}$ is an indicator variable equal to 1 for all quarters past 2017q3, and 0 otherwise. All other variables are defined as previously. Windmeijer (2005) p-values in parentheses. AB is the Arellano-Bond (1991) test for serial correlation. *** p<0.01, ** p<0.05, * p<0.1

Table 4. Panel B. Sales Performance Following 2016 Election, Consumer-Facing Firms

Table presents results of the two-step Blundell-Bond (1998) system GMM estimation of model (8) with Windmeijer (2005) correction.

VARIABLES	(3)		(4)	
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2016q4-2017q3}$	-0.005	(0.256)		
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2016q4}$			-0.004	(0.317)
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q1}$			-0.001	(0.806)
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q2}$			-0.004	(0.417)
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q3}$			-0.002	(0.617)
$ConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{q>2017q3}$	-0.008	(0.217)	-0.004	(0.469)
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2016q4-2017q3}$	-0.019***	(0.002)		
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2016q4}$			-0.016***	(0.007)
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q1}$			-0.014**	(0.045)
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q2}$			-0.014*	(0.071)
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q3}$			-0.012	(0.178)
$ConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{q>2017q3}$	-0.028***	(0.006)	-0.017**	(0.045)
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2016q4-2017q3}$	-0.004	(0.433)		
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2016q4}$			-0.004	(0.343)
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q1}$			-0.003	(0.467)
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q2}$			-0.007	(0.151)
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{2017q3}$			-0.005	(0.347)
$NonConsumerGoodsPP^{Rep}_{i2016q3} \times Qtr_{q>2017q3}$	-0.006	(0.233)	-0.008	(0.200)
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2016q4-2017q3}$	0.001	(0.853)		
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2016q4}$			-0.000	(0.975)
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q1}$			-0.001	(0.795)
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q2}$			-0.003	(0.531)
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{2017q3}$			-0.006	(0.107)
$NonConsumerGoodsPP^{Dem}_{i2016q3} \times Qtr_{q>2017q3}$	0.002	(0.791)	-0.005	(0.246)
Observations	17,988		17,988	
Number of firms	343		343	
AB test p-value	0.856		0.858	
Number of IVs	18		30	
F-stat	42.12		23.06	

$(Non)ConsumerGoodsPP^{Dem}_{i,2016q3}$ is an indicator for a (non) consumer-goods firm with a Democratic brand image. $(Non)ConsumerGoodsPP^{Rep}_{i,2016q3}$ is an indicator for a (non) consumer-goods firm with a Republican brand image. All other variables are defined as previously. Windmeijer (2005) p-values in parentheses. AB is the Arellano-Bond (1991) test for serial correlation. *** p<0.01, ** p<0.05, * p<0.1

Table 5. Post-Inauguration Performance

The table presents focal results of estimating model (9). We do not report the estimates for quarterly risk factor loadings and their Lewellen-Nagel (2006) lags for brevity. Portfolios are formed to contain equities that fall into the top 33% and bottom 33% of the distribution of *PP(Trump vs. Democratic Party)* metric and are rebalanced (securities added and removed from the portfolio) once every quarter, on the 21st calendar day after the BAV quarterly data collection window opens, to ensure the BAV data used for calculating PP and forming portfolios are temporally aligned and are representative of consumer perceptions as of that date.

Table 5. Panel A. Portfolio Performance Following President Trump's 2017 Inauguration

VARIABLES	(1) Difference in portfolio returns, (2)-(3)	(2) Trump-like portfolio	(3) Democratic Party–like portfolio
Change in Presidential Net Approval Ratings	0.038***	0.018**	-0.020***
	(0.008)	(0.028)	(0.001)
Alpha	0.00003	0.00015**	0.00013
	(0.90700)	(0.03226)	(0.55052)
Quarterly Betas	Yes	Yes	Yes
Lewellen-Nagel Correction	3 lags	3 lags	3 lags
Observations	676	676	676
R-squared	0.702	0.962	0.952

p-values in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 5. Panel B. Portfolio Performance Following President Trump's 2017 Inauguration for Consumer-Facing Firms Portfolios

VARIABLES	(4) Difference in portfolio returns, (5)-(6)	(5) Trump-like portfolio	(6) Democratic Party–like portfolio
Change in Presidential Net Approval Ratings	0.029*	0.015***	-0.014
	(0.080)	(0.0088)	(0.301)
Alpha	0.00006	0.00016***	0.00010
	(0.71813)	(0.00636)	(0.57765)
Quarterly Betas	Yes	Yes	Yes
Lewellen-Nagel Correction	3 lags	3 lags	3 lags
Observations	676	676	676
R-squared	0.714	0.947	0.929

p-values in parentheses. *** p<0.01, ** p<0.05, * p<0.1

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