# The Market Value of Political Alignment: Recent U.S. Evidence

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**Abstract**

Examining publicly-listed U.S. firms, we illustrate investor reactions to the removal of the SEC's nonpartisan Enforcement Director's authority on March 10, 2025. Over the subsequent three days, Republican-leaning firms gain an average of around $139 million in market value, representing 2.5% of the median firm market cap in our sample. We show equity investors reward alignment with the incumbent administration while imposing no penalty for misalignment. These findings are more pronounced when a firm's CEO and CFO are both Republican-leaning, highlighting the role of political alignment in market valuations, particularly in times of regulatory restructuring.

**Keywords:** Political Alignment; SEC; abnormal returns; investors; political contributions.

**JEL Classification:** G14, G38, D72, M14

## 1. Introduction

Regulatory independence traditionally underpins effective capital market oversight around the world. In the US, this is exemplified, inter alia, by the SEC's historical autonomy through staggered commissioner terms and bipartisan leadership.[1] However, recent executive actions challenge this traditional independence, prompting concerns about the growing politicization of financial regulation. The SEC's removal of its Enforcement Director's authority to issue investigation orders on March 10, 2025 marks a major governance shift. Officially intended to align with Commission priorities, it introduces procedural delays and raises the bar for launching investigations, especially in cases without a clear majority (Weil, Gotshal & Manges LLP, 2025). This change means that SEC staff now need to seek approval from the Commission's politically appointed commissioners before launching investigations, rather than the Enforcement Director. This shift is notable, as currently two of the SEC's three Commissioners are Republican appointees, placing enforcement decisions under increased political influence compared to the traditionally nonpartisan Enforcement Director.[2]

In this paper, we focus on the March 10, 2025 announcement rather than previous executive orders because this one specifically targets the SEC by transferring authority from a nonpartisan Director to politically appointed Commissioners. While procedurally legitimate, this shift risks undermining the SEC's traditional independence and injecting greater partisanship into its enforcement activities. Using this test case, we examine how financial markets respond to institutional shifts that potentially politicize regulatory control, particularly in relation to corporate political alignment with the incumbent administration.

We examine two complementary mechanisms: 1) alignment advantage, and 2) misalignment risk. The 'alignment advantage' view suggests that firms with political ties to the incumbent administration may benefit from regulatory leniency, consistent with evidence

[1] The SEC's commissioners serve staggered five-year terms, and no more than three of the five may belong to the same political party. Retrieved from https://www.sec.gov/about/sec-commissioners

[2] Two recent executive orders have intensified concerns over the politicization of independent regulators. Executive Order No. 14215 (2025) expands the presidential oversight of agencies like the SEC, while Executive Order No. 14222 (2025) mandates cost-cutting and transparency measures across all federal bodies. Against this backdrop, Commissioner Crenshaw, the SEC's sole Democrat, warns that recent enforcement changes reflect a broader regulatory pullback in key areas such as cryptocurrency, climate disclosures, market surveillance, and enforcement actions (Goldstein, 2025).

showing political connections reduce enforcement likelihood and severity (Correia, 2014). In contrast, the 'misalignment risk' view posits that firms lacking such ties may face increased scrutiny, as greater discretion at the Commissioner level allows for politically influenced enforcement. Supporting this, Pandey et al. (2025) find higher investigation rates for politically misaligned firms, even after controlling for misconduct risk. In this context, we conjecture that capital markets respond positively to regulatory shifts that increase political discretion, boosting aligned firms while potentially penalizing or ignoring misaligned ones. In line with these expectations, we find that politically aligned 'red' firms experience significantly positive abnormal returns following the SEC's March 10, 2025, governance shift. Republican-leaning firms experience an average abnormal return of 0.7%, translating into a $139 million increase in market value; when compared to Democratic-leaning firms, this advantage rises to 0.8% after adjusting for firm characteristics, implying a relative gain of $158 million. These effects are stronger when both the CEO and CFO are Republican-leaning, suggesting that clearer top-executive alignment amplifies the market's positive response. However, we find no statistically significant evidence supporting the misalignment risk view, i.e., politically misaligned 'blue' firms are not penalized by the market in the immediate post-announcement period.

Our findings contribute to the political economy literature by showing that investor valuations respond promptly to shifts in regulatory structure and perceived neutrality. The results highlight the economic value of political alignment in a time of regulatory change and raise concerns about reduced regulatory independence.

## 2. Data and Methodology

In our sample selection, we restrict the main analysis to S&P 1500 firms that have made political contributions[3]. Our dataset includes 766 U.S. firms listed on NYSE (505) or NASDAQ (261) between March 5th and 13th, 2025, with 5,362 firm-day observations that have made a political contribution. Data on stock prices, market indices, and the 10-year U.S. bond yield (risk-free rate) are obtained from COMPUSTAT and FRED. Information on SEC enforcement action is sourced from Audit Analytics' Accounting and Auditing Enforcement Releases (AAER) database, while CEOs' political orientation scores are taken from Dane Christensen's

[3] Including firms without contributions in the baseline risks introduces measurement error. The absence of recorded contributions does not necessarily imply political neutrality, as firms may exert influence through indirect channels (e.g., board memberships, ownership ties, trade associations, or lobbying) that the dataset does not capture. Classifying such firms as neutral, therefore, risks misrepresenting their true orientation.

website.[4] Our dataset shrinks to 766 firms due to available data on the CEOs' political orientation score. Figure OA.1 in the Online Appendix shows the distribution of sample firms across sectors, based on the 12 Fama-French industry classification. Finance (28%), services (16%), and healthcare (9%) constitute about half of our sample although we detect no significant clustering across sectors.

We examine the investor reactions through two measures, consistent with the literature on market reaction to announcements (e.g., Ahmed et al., 2025; Ferriani et al., 2025; Tosun et al., 2024): *Cumulative Abnormal Returns* [0,3] i.e., CAR03, defined as the stock returns minus the market index return; and Excess Returns, defined as the stock returns minus the risk-free rate. First, we construct *Side*, which captures the CEO's political orientation score for each firm and ranges from –1 (Democrat-leaning, 'blue' firms) to +1 (Republican-leaning, 'red' firms). The score is derived from political contributions recorded by the Federal Election Commission (Christensen et al., 2015). Our main explanatory variable is *Red*, a binary indicator equal to one if the political orientation score is positive (Republican-leaning) and zero if it is negative (Democrat-leaning). We use this binary measure as our primary variable of interest because it allows for a more straightforward interpretation of the results. In panel regression analyses, *Post* is a binary variable that takes the value of one for the announcement day (March 10, 2025) and the following three days, and zero for the three days before the announcement. Similar studies (e.g., Tosun and Lucey, 2023; Dahlquist and Robertsson, 2001; Sharpe, 1964) emphasize the importance of controlling for possible effects of firm size, stock liquidity, and risk when studying investor responses. Hence, we construct *FirmSize* as the market value of the firm, calculated as the closing price times the shares outstanding; *Volume* as the total daily trading volume of shares of a firm; *Volatility* as the daily high minus low price, normalized by the closing price; and *M-RiskPremium* is defined as the daily return on the relevant market index (NYSE Composite for NYSE-listed firms, NASDAQ Composite for NASDAQ-listed firms) *minus the risk-free rate* .Given we investigate any favorable reaction to 'red' firms by investors after the transfer of the SEC's autonomy, we also control for *Misconduct* in our model as the amount of accounting and auditing misconduct that the firm is alleged to have engaged in by the SEC since 2000. All non-binary variables are winsorized to avoid the effect of outliers. Table OA.1 in the Online Appendix provides a detailed description of these variables.

[4] This is available at: https://sites.google.com/view/danechristensen/DaneMChristensen

Table 1 displays descriptive statistics indicating that 59% of the sample are 'red' firms. Average *CAR03* for 'red' firms is positive and higher than that for 'blue' firms, 0.663% (66bps) vs -0.163% (-16bps), while overall market responses as *CAR03* and *Excess Returns* are 0.33% and -4.69%, respectively. The average firm size is about $19.85 billion, and approximately 2 million shares are traded daily per firm.

**[Table 1]**

We estimate a set of cross-sectional regressions to study how investors of 'red' versus 'blue' firms respond to the transfer of the SEC Enforcement Director's autonomy to the Republican-leaning Commission:

$$CAR03_i = \alpha + \beta_i \, Red_i + \sum_{l=1}^{5} \gamma_l \, controls_{i,l} + \delta_k + \varepsilon_i \tag{1}$$

where $CAR03_i$ is the cumulative abnormal returns for firm *i*; $Red_i$ is a binary indicator that takes the value of one if the firm is Republican-leaning and zero otherwise. The model also includes $controls_{i,l}$, which denote the set of control variables (FirmSize, Volume, Volatility, M-RiskPremium, and Misconduct), along with industry fixed effects ($\delta_k$). Standard errors are clustered at the firm level. In additional analyses, we replace *'Red'* with *'Side'*.

We also estimate a set of panel regressions for a +/- 3-day period around March 10, 2025:

$$Excess\ Returns_{i,t} = \alpha + \beta_1 (Red \times Post)_{i,t} + \beta_2 Red_i + \beta_3 Post_t + \sum_{l=1}^{5} \gamma_l \, controls_{i,t,l} + \delta_k + \varepsilon_{i,t} \tag{2}$$

where $Excess\ Returns_{i,t}$ is the excess returns for firm *i*, for the period [-3;+3]; $Red_i$ is a binary indicator that takes the value of one if the firm is Republican-leaning ('red') and zero otherwise; $Post_t$ is a binary indicator that takes the value of one for the announcement day (March 10, 2025) and the following three days, and zero for the three days before the announcement. The model also has $controls_{i,l}$ denote the set of firm-day control variables which are the same as in model (1). The model also includes industry fixed effects ($\delta_k$), and standard errors are clustered at the firm level. In additional analyses, we replace *'Red'* with *'Side'*.

## 3. Results and Discussion

Panel A of Table 2 shows that shareholders of 'red' firms respond positively to the news that the SEC's autonomy is transferred to the Republican-leaning Commission, while 'blue' firms' stockholders react negatively, and more so as days follow. Over the three-day event window, red firms gain 0.7% in cumulative abnormal returns (CAR03), whereas blue firms lose 0.1%, resulting in a 0.8 percentage point difference that is statistically significant at the 1% level[5]. This descriptive difference reflects an absolute gain of $139 million (i.e., 0.007 x19.847billion = $138.929 million) for 'red' firms.[6] Regression results in Panel B confirm these initial findings. Compared to 'blue' firms, 'red' companies enjoy 0.8% higher *CAR03*, and the more 'red' a firm is, the higher its market gain. This translates to a market-value gain of $158.77 million for an average Republican-leaning company (i.e., 0.008 × $19.847 billion = $158.77 million) over a three-day period.[7] Thus, the $139 million reflects the standalone market reaction of red firms, while the $158 million isolates the excess value of political alignment, net of controls. Figure 1 also supports these findings, specifically showing a significant jump in CARs at the event date. After the event, both CAR and raw returns for 'red firms' stay mainly on the positive side.

**[Figure 1]**

**[Table 2]**

Panel B of Table 2 reports the panel regressions with *Excess Returns*, which also reveal

[5] To address concerns about anticipation or confounding events, we review SEC releases and contemporaneous commentary. The Delegation of Authority to the Enforcement Director (Final Rule 33-11366) is issued on March 10, 2025, with no advance notice or press coverage. Other SEC actions in nearby weeks are unrelated to enforcement discretion. This chronology suggests the reversal is unanticipated and not confounded by same-day news. To ensure that our findings are not influenced by sectors most directly exposed to the March 2025 trade escalation, we re-estimate our baseline model after excluding firms operating in agriculture and food processing, primary metals, and defence and aerospace industries, identified using the Fama–French 48 classification. The untabulated results confirm robustness of our original findings. Although we attribute the observed return differentials to this governance change, we acknowledge that, as with all event studies, contemporaneous factors cannot be entirely excluded.

[6] CARs for red firms (CAR01, CAR03, CAR05, CAR010) are statistically greater than zero across all event windows. For blue firms, CARs are statistically indistinguishable from zero for CAR01, CAR03, and CAR05, and significantly less than zero for CAR010, based on one-sided *t*-tests.

[7] We acknowledge that it is inevitably possible our findings on the investor reaction after March 10th might include delayed investor responses to events happened before March 10th. We also obtain robust and virtually similar results when standard errors are clustered at the industry level. To address the issue of possibly inflated t-statistics due to cross-sectional dependence, we use a cluster bootstrap of regression coefficients, based on industry classification, with replacement; and we obtain still robust results in untabulated analyses.

interesting patterns. Negative coefficient estimates for *Post* indicate that, after the announcement, investors react negatively, with an average decline of approximately -0.8%. Furthermore, being a 'red' firm does not pay off in general, as shown by the negative coefficient estimate for *Red* (0.2%). However, companies reap the benefits of being 'red' compared to 'blue' firms in the post period, reversing the pre-event shortfall of -0.2% to a gain of 0.3% as indicated by the statistically significant coefficient on *Red*×*Post.* Investors may hope that such 'red' firms can be subjected to more favorable treatment by the Republican-led Commission. We obtain similar results with *Side*×*Post*, implying that the more 'red' a firm is, the greater its market value in the post period up to 20 bps. The regression on excess returns produces smaller coefficients because they capture *daily returns*. When cumulated into CARs, these effects accumulate to larger magnitudes, e.g., 0.7% over three days. In Panel C, we also propensity-match each 'red' firm with up to two nearest neighbor 'blue' firms, using all control variables as matching criteria, while unmatched firms are dropped.[8] We obtain robust results similar to the original findings in Panel B.

We conduct a range of robustness analyses to ensure our findings are not driven by model choice, sample definition, or confounding factors. *First*, we examine two earlier institutional changes under a Democratic presidency: the 2009 delegation of enforcement authority to SEC staff and its subsequent indefinite extension in 2010. As shown in OA.2, Republican-leaning firms experience significant negative CARs and excess returns following both events, with a sharper decline in 2009. This suggests markets interpret the shift of discretion away from politically appointed Commissioners as reducing partisan insulation.

*Second*, we re-estimate abnormal returns using the market model and the Fama–French three-factor model and also introduce state fixed effects to account for potential local political influences. Results in OA.3, Panel A, confirm the robustness of our main findings. In the same panel, we compare partisan firms with politically neutral peers where we include additional 554 politically 'neutral' companies in our sample, increasing the sample size to 1320 U.S. listed firms with 9,240 firm-day observations. The coefficient on *RedNeutral*×*Post* remains positive and significant, showing that Republican-leaning firms outperform neutral firms after the 2025 event. By contrast, *BlueNeutral*×*Post* is insignificant, indicating no investor penalty for Democratic-leaning or neutral firms.

[8] Covariate balance is achieved.

*Third*, in OA.3, Panel B, we test whether effects are more substantial among firms with greater exposure to financial misconduct risk. Using AAER-based measures, we construct *RedBad*, capturing Republican-leaning firms with higher predicted misconduct probabilities. Results show markedly stronger positive investor reactions for these firms, consistent with reduced concerns about enforcement. The same panel also examines political alignment at the executive level. When CEOs and CFOs signal opposing partisan preferences, investor reactions are insignificant. However, when both executives align as Republican-leaning, the positive effect strengthens, suggesting investors value a clear partisan signal.

Finally, we extend the event windows to ±1, ±3, ±5, and ±10 trading days, and also include pre-event days in the calculation of CAR. As reported in OA.4, the positive effects for Republican-leaning firms persist across alternative windows, while pre-event estimates are insignificant, confirming that markets did not anticipate the announcement.

Together, these results - across OA.2, OA.3 Panels A–B, and OA.4 reinforce the robustness of our main findings. Investor reactions consistently reflect partisan alignment and the interpretation of regulatory discretion, rather than being confounded by events, alternative model choices, or sample definitions.



## 4. Conclusion

This paper shows that investor valuations respond to shifts in the regulatory climate, particularly when political discretion increases. Following the SEC's March 10, 2025 governance change, politically aligned 'red' firms gain significant market value, supporting the alignment advantage view. This corresponds to around $139 million gain in market value for Republican-leaning firms. Interestingly, firms with Republican-leaning CEOs and CFOs see the strongest effects, suggesting that clear political alignment amplifies investor confidence. However, we find no evidence that politically misaligned 'blue' firms are penalised, offering no support for the misalignment risk view. These findings highlight the market value of political alignment during times of regulatory change and underscore the importance of regulatory independence.

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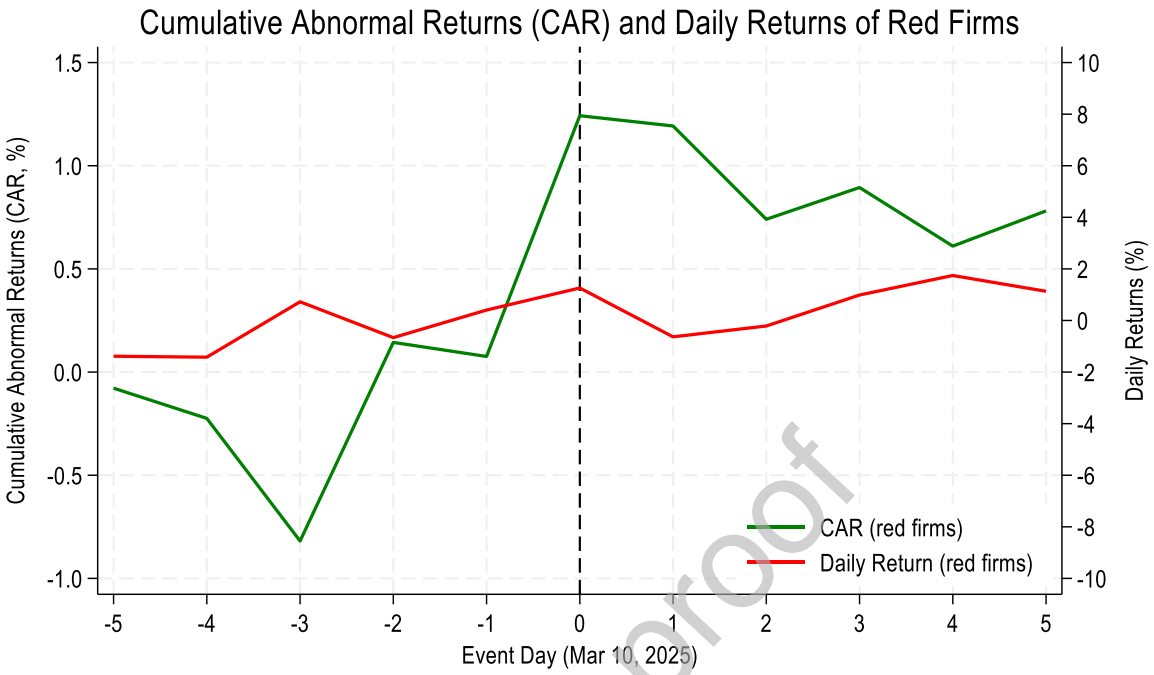
**Figure 1.**

**Distribution of CAR and Return for Red Firms**




Note: This figure displays the distribution of CAR and raw returns for Republican-leaning firms in -/+ 5-day period around March 10, 2025 (day 0).

**Table 1.**
**Descriptive Statistics**

| | All Firms | | | Red Firms | | | Blue Firms | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Mean** | **StDev** | **Median** | **Mean** | **StDev** | **Median** | **Mean** | **StDev** | **Median** |
| Red | 0.590 | 0.495 | 1.000 | | | | | | |
| CAR03 (%) | 0.334 | 3.935 | 0.357 | 0.663 | 3.856 | 0.611 | -0.163 | 3.993 | -0.170 |
| ExcessReturn (%) | -4.690 | 2.456 | -4.676 | -4.658 | 2.426 | -4.662 | -4.740 | 2.517 | -4.703 |
| Side | 0.105 | 0.809 | 0.200 | 0.784 | 0.305 | 1.000 | -0.778 | 0.317 | -1.000 |
| FirmSize ($billion) | 19.847 | 29.007 | 5.268 | 16.904 | 25.856 | 4.917 | 23.609 | 32.368 | 6.599 |
| Volume (million) | 2.065 | 2.327 | 1.117 | 1.851 | 0.219 | 1.012 | 2.306 | 2.435 | 1.285 |
| Volatility | 0.034 | 0.016 | 0.031 | 0.033 | 0.015 | 0.030 | 0.036 | 0.016 | 0.032 |
| Misconducts | 0.060 | 0.264 | 0.000 | 0.041 | 0.211 | 0.000 | 0.087 | 0.324 | 0.000 |
| M-RiskPremium (%) | -4.843 | 1.388 | -5.062 | -4.826 | 1.324 | -5.062 | -4.868 | 1.461 | -5.062 |

Note: This table reports the summary statistics of the main sample.

**Table 2.**
**T-Tests and Regression Analyses with CAR and Excess Return**

| **Panel A: T-Tests** | | | |
|---|---|---|---|
| | **Red** | **Blue** | ***Difference*** |
| CAR01 | 0.010 | 0.007 | *0.003* |
| CAR03 | 0.007 | -0.001 | *0.008**** |
| CAR05 | 0.006 | -0.003 | *0.009**** |
| CAR010 | 0.004 | -0.006 | *0.010*** |

| **Panel B: Regression Analyses** | | | | |
|---|---|---|---|---|
| | **CAR03** | | **Excess Return (+/- 3-Day Period)** | |
| Red×Post | | | 0.003*** | |
| | | | (0.001) | |
| Red | 0.008*** | | -0.002* | |
| | (0.003) | | (0.001) | |
| Side×Post | | | | 0.002*** |
| | | | | (0.001) |
| Side | | 0.004** | | -0.001** |
| | | (0.002) | | (0.001) |
| Post | | | -0.008*** | -0.006*** |
| | | | (0.001) | (0.001) |
| FirmSize | -0.033 | -0.038 | -0.003 | -0.003 |
| | (0.063) | (0.062) | (0.013) | (0.013) |
| Volume | 0.740 | 0.778 | 0.230 | 0.149 |
| | (0.845) | (0.820) | (0.195) | (0.194) |
| Volatility | -0.692*** | -0.729*** | -0.124*** | -0.127*** |
| | (0.104) | (0.100) | (0.025) | (0.025) |
| Misconducts | -0.005 | -0.006 | -0.001 | -0.001 |
| | (0.006) | (0.006) | (0.001) | (0.001) |
| M-RiskPremium | -0.284* | -0.329** | 0.414*** | 0.403*** |
| | (0.148) | (0.144) | (0.032) | (0.032) |
| Constant | 0.005 | 0.007 | -0.015*** | -0.016*** |
| | (0.011) | (0.011) | (0.002) | (0.002) |
| Observations | 722 | 766 | 5,054 | 5,362 |
| Adj. $R^2$ | 0.080 | 0.084 | 0.104 | 0.102 |

| **Panel C: Regression Analyses with PSM-matched Sample** | | | | |
|---|---|---|---|---|
| | **CAR03** | | **Excess Return** | |
| Red×Post | | | 0.003** | |
| | | | (0.001) | |
| Red | 0.007** | | -0.002* | |
| | (0.003) | | (0.001) | |
| Side×Post | | | | 0.002** |
| | | | | (0.001) |
| Side | | 0.003* | | -0.001* |
| | | (0.002) | | (0.001) |
| Post | | | -0.008*** | -0.006*** |
| | | | (0.001) | (0.001) |
| Constant, Controls | ----------YES---------- | | | |
| Observations | 659 | 659 | 4,613 | 4,613 |
| Adj. $R^2$ | 0.079 | 0.076 | 0.094 | 0.094 |

Note: The *** indicates statistical significance at the 1% level.

## Conflict of Interest

The authors have no conflicts of interest to disclose.

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