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Political Assassination and its Impact on Emerging Markets' Financial Assets

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ABSTRACT: This paper examines the impact of the assassination of Mexico's leading presidential candidate on Mexican Brady bonds and its spillover effects to other emerging financial markets. On the day of the assassination, Mexican Brady bonds declined by a significant 0.97 percent and continued to experience significant declines over the following three trading sessions. However, with the naming of Ernesto Zedillo as the ruling party's presidential candidate, Mexican Brady bonds recovered over 75 percent of the losses incurred during the previous four trading days. The assassination did not significantly affect other emerging financial markets. The availability of a $6 billion swap facility, holding of large foreign reserves, selection of Ernesto Zedillo, and well managed responses by the Mexican government all served to attenuate spillover effects from the Mexican political crisis.

INTRODUCTION

A series of political and financial crises in 1994 made that year the most difficult and challenging period for Mexican financial markets since the debt crisis of early 1980s. These crises began with an uprising in the southern state of Chiapas in January 1994. On January 1, 1994, armed Indian peasants clashed with government troops and took control of six towns. The uprising stemmed from frustration among the indigenous peoples regarding their impoverished state and frequent human-rights violations. This rebellion was followed by two assassinations. On March 23, 1994, Luis Donaldo Colosio, the ruling party's presidential candidate, was assassinated in

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Tijuana. Also, a month after the election of Ernesto Zedillo as Mexico's president, Jose Francisco Ruiz Massieu, Secretary General of the ruling party, was assassinated on September 28.[1]

On December 20, 1994 the Mexican government widened the lower limit of the official trading range of the peso from 3.4712 pesos per dollar to 4.0016 pesos per dollar.[2] The widened intervention band resulted in an immediate 12 percent devaluation of the peso from 3.47 pesos per dollar (the close on December 19) to 3.88 pesos per dollar (the opening on December 20). Two days later, the Mexican government was forced to let the peso float freely against the dollar, whereupon it then fell sharply to 4.80 pesos per dollar. The Mexican peso began the year trading at 3.11 pesos per dollar, but by the end of 1994, it closed at 4.93 pesos per dollar.

The political and financial crises affecting Mexican financial markets also affected other emerging financial markets. Following the peso devaluation, the Argentine stock market lost 15.3 percent of its value and the Brazilian stock market fell 16.4 percent from December 20 to December 27, 1994. The reaction of emerging markets' stock, bond, and currency prices to crises in Mexico raises concerns about spillover effects of shocks from one emerging market to others. Do investors view a shock in a single emerging market as simply a "common type of bad signal" initiating valuation revisions for all emerging markets' assets? Or are investors able to discriminate among emerging markets according to the degree of financial difficulty expected?

The financial crisis in Mexico has generated a large number of empirical studies. One set of studies [Barbone and Forni (1997), Mathur, Gleason and Singh (1998), and Kilic, Tuffe and Hassan (1999)] examined the capital markets' reaction to the peso devaluation. A second set of papers examined whether there exists some set of fundamental economic variables that help to explain the variation in financial crisis across countries [Sachs, Tornell and Velasco (1996) and De Gregorio and Valdés (2001)]. Furthermore, Calvo and Reinhart (1997), Glick and Rose (1999), Kaminsky and Reinhart (2000), Van Rickengham and Weder (2001), De Gregorio and Valdés (2001), and Han, Lee and Suk (2003) investigated through which channels contagious currency crises are transmitted across the border.[3]

While the financial crisis in

[1] Between these two assassinations, two prominent Mexican businessmen, Alfredo Harp Helu and Angelo Losado Moreno, were kidnaped on March 14 and April 25, respectively.

[2] Up until December 22, 1994, the Mexican government maintained a crawling peg against the dollar. The peso-dollar exchange rate was allowed to fluctuate in a narrow band consisting of a fixed lower limit (on the peso appreciation) and an upper limit that was allowed to increase by 0.0004 pesos per dollar on a given day.

[3] Zhang (2000) provides an insightful analysis of recent Asian and Mexican financial crises and proposes several solutions that are aimed at minimizing future financial crises.

Mexico has generated numerous studies, there is lack of research on the financial markets' reactions to the Colosio assassination. In fact, there are limited numbers of studies that have examined people's reactions to the past assassinations. Esaiasson and Granberg (1996) examined whether the assassination of Swedish Prime Minister Olof Palme resulted in a lasting restructuring of people's attitudes toward Palme. Their results revealed that the assassination had a limited rather than major long-term effect on people's attitudes. Ned Davis Research in Nokomis, Florida examined the Dow Jones Industrial Average (DJIA) reactions to the JFK assassination. DJIA initially declined by 2.9 percent, but within 22 days after the assassination, the stock market recovered and the DJIA registered a positive gain of 7.2 percent. Hence, it appears that past assassinations had limited short-term rather than long-term impacts on people's behavior.

In this paper, we investigate the size and duration of the shock introduced by the Colosio assassination on Mexican financial assets. In addition, we also investigate the spillover effects from the political crisis in Mexico reverberating across borders to other emerging financial markets. We are interested in examining whether foreign investors viewed Mr. Colosio's assassination as an isolated, local event affecting only Mexican financial assets; or whether foreign investors viewed the assassination as simply "a common type of bad signal" initiating valuation revisions for all emerging markets' financial assets. The severity of the crisis will depend on whether the assassination was politically motivated or not and how well the Mexican government manages the crisis. If the assassination was not politically motivated and the Mexican government brings the crisis under control on a timely manner, then we expect the assassination will have a limited short-term effect on Mexican financial assets and we will not expect significant spillover effects to other emerging markets.

The remainder of the paper is organized as follows. The following section describes the data set and the methodology. And, then, we present and analyze our empirical results. The last section provides a summary and conclusion.

DATA AND METHODOLOGY

Data

We employ Brady bond and sovereign loan prices to analyze the spillover effects of the Mexican political crisis on the ensemble of emerging markets. The secondary market for developing country sovereign loans began after the Mexican debt crisis in late 1982. Based on sovereign loans, Brady bonds were created as a means to provide debt relief to developing nations by restructuring billions of dollars of defaulted or devalued commercial bank debt in the wake of the Latin America debt crisis of 1980s.[4] On January 10, 1990, Mexico became the first country to reach a debt reduction agreement with its

commercial lenders under the Brady Plan. Mexico agreed to exchange $48.9 billion of commercial bank debt for collateralized fixed-rate par bonds (PAR), collateralized floating rate discount bonds (DISCOUNT), and new money.[5] Since then, many more developing countries renegotiated their loans under the Brady Plan.[6] The Brady bond market developed quickly in the 1990s and Brady bonds are now actively traded in secondary markets around the world.

The data for our empirical analysis covers the period from December 1, 1993 through June 30, 1994. Our sample includes daily Brady bond prices for Argentina, Mexico, Nigeria, the Philippines, and Venezuela. In addition, the sample includes daily sovereign loan prices for Morocco and Peru. Even though the data availability limited our sample to seven countries, the data set includes countries from different global regions.

Methodology

We analyze spillover effects from presidential candidate Luis Donaldo Colosio's assassination using an event study methodology similar to that proposed in Karafiath, Mynatt and Smith (1991). This approach allows us to separate the data into what is the "normal" behavior during "tranquil" period and "anomalous" behavior during "crisis" period. The event study methodology allows us to estimate abnormal returns around an event date. Abnormal returns are obtained by appending zero-one dummy variables to the market model equation.[7] Defining the event date (day zero) as March 23, 1994, the regression equation is estimated over a 5-months period from December 1, 1993 to April 29, 1994. The forecast interval contains days -10 to +27 in event time. For each day k in the forecast interval, a zero-one dummy variable D_k is assigned. The dummy variable D_k is set equal to one on forecast-interval day k, and zero otherwise. The coefficient on the dummy variable D_k measures the average daily abnormal return on day k. Daily abnormal returns for the forecast interval are obtained by estimating the following equation for

[4] On March 10, 1989, Treasury Secretary Nicholas Brady introduced the Brady Plan with an emphasis placed on debt and debt-service reduction over continued lending. The Brady Plan calls for creditor banks to voluntarily reduce the value of their claims by choosing one of a menu of options presented to them. These options consist broadly of providing new money or converting their commercial loans for new sovereign bonds.

[5] PAR bonds refer to loans exchanged at 100 percent of face value with below market interest rates. Principal is collateralized by 30-year U.S. Treasury zero-coupon bonds. DISCOUNT bonds refer to loans exchanged at a discount, but coupon rates set at market interest rates. Principal is collateralized by 30-year U.S. Treasury zero-coupon bonds. See the World Debt Table 1990 - 1991 edition for complete discussion on the Mexican Brady Plan agreement.

[6] See the Global Development Finance 1998 edition for complete discussion on debt reduction agreements under the Brady Plan.

[7] Several leads and lags of market returns are also included as independent variables in order to overcome the possibility of nonsynchronous trading in the data (Scholes and Williams, 1977).

each country:

$$R_{jt}=a_j+b_{j1}R_{mt-2}+b_{j2}R_{mt-1}+b_{j3}R_{mt}+b_{j4}R_{mt+1}+b_{j5}R_{mt+2}+\sum_{k=-10}^{27} r_{jk}D_k+e_{jt} \quad (1)$$

Where:

$R_{j,t}$ = return to country j on day t,

$R_{m,t}$ = return to the market portfolio on day t[8],

a_j = ordinary least square (OLS) estimate of the intercept coefficient for country j,

b_j = OLS estimate of the slope coefficient,

$r_{j,k}$ = OLS estimate of the coefficient on the dummy variable, D_k. This coefficient measures the abnormal return for country j on day k,

D_k = a dummy variable which is set equal to one on day k in the forecast interval and 0 otherwise, and

$e_{j,t}$ = residual for country j on day t.

For each country, cumulative abnormal returns (CARs) are obtained by summing the r coefficients:

$$CAR_j(t_1,t_2) = \sum_{k=t_1}^{t_2} r_{jk} \quad (2)$$

where $CAR_j(t_1, t_2)$ is the cumulative abnormal returns over the interval t_1 to t_2 for the j^{th} country.

EMPIRICAL RESULTS

In this section, we examine empirical results regarding the impact of the Colosio assassination on Mexican Brady bonds and its spillover effects to other emerging financial markets. Event significance is analyzed by examining return correlations, return standard deviations, and abnormal returns surrounding the assassination.

Return Correlations and Return Standard Deviations

Tables 1A, 1B, 1C presents return correlations during the period December 1, 1993 through June 30, 1994, and periods before (December 1, 1993 to March 22, 1994) and after (March 24, 1994 to June 30, 1994)

[8] The market portfolio is a weighted average of seven countries included in the sample. In order to create a debt-weighted market portfolio, these seven countries' returns are weighted according to their 1993 debt level. The amount of debt corresponds to the entry "Total Debt Stocks" in the World Debt Tables. It consists of public and publicly guaranteed long-term debt, private non-guaranteed long-term debt, the use of IMF credit, and short-term debt. To examine the robustness of the debt-weighted market portfolio, we calculated the correlation between the debt-weighted market portfolio and the JP Morgan emerging market bond index plus (EMBI+). For the period from January 3, 1994 to April 29, 1994, the correlation between these two portfolios was 0.917. We also calculated the correlation between our portfolio and the JP Morgan Brady bond index. The correlation between these two portfolios was 0.915. Finally, we calculated the correlation between the debt-weighted market portfolio and the GNP-weighted market portfolio. These two portfolios were also highly correlated.

Table 1A
Return correlations for all countries included in the sample from 12/1/93 to 6/30/94

This period corresponds to -3 months to +3 months around the assassination. The ruling party's presidential candidate Luis Donaldo Colosio was assassinated on March 23, 1994.

Country	Argentina	Mexico	Morocco	Nigeria	Peru	Philippines	Venezuela
Argentina	1	0.6691	0.6190	0.5099	0.3747	0.4540	0.6596
Mexico		1	0.6596	0.3546	0.2508	0.4018	0.6226
Morocco			1	0.4278	0.3928	0.4892	0.5737
Nigeria				1	0.3702	0.5322	0.5508
Peru					1	0.4059	0.2650
Philippines						1	0.4184
Venezuela							1

Table 1B
Return correlations for all countries included in the sample from 12/1/93 to 3/22/94

This period corresponds to -3 months to -1 day before the assassination. The ruling party's presidential candidate Luis Donaldo Colosio was assassinated on March 23, 1994.

Country	Argentia	Mexico	Morocco	Nigeria	Peru	Philippines	Venezuela
Argentina	1	0.7282	0.7430	0.5686	0.6191	0.4690	0.7227
Mexico		1	0.7311	0.5090	0.5052	0.5411	0.7235
Morocco			1	0.5034	0.5793	0.5654	0.6526
Nigeria				1	0.4088	0.4825	0.5188
Peru					1	0.4565	0.4326
Philippines						1	0.4848
Venezuela							1

Table 1C
Return correlations for all countries included in the sample from 3/24/94 to 6/30/94

This period corresponds to +1 day to +3 months after the assassination. The ruling party's presidential candidate Luis Donaldo Colosio was assassinated on March 23, 1994.

Country	Argentina	Mexico	Morocco	Nigeria	Peru	Philippines	Venezuela
Argentina	1	0.6247	0.5081	0.4778	0.2091	0.4453	0.6183
Mexico		1	0.6008	0.2669	0.0636	0.3203	0.5483
Morocco			1	0.3828	0.2655	0.4306	0.5248
Nigeria				1	0.3562	0.5620	0.5778
Peru					1	0.3925	0.1634
Philippines						1	0.3908
Venezuela							1

the assassination. With the exception of two countries, return correlations decreased substantially after the assassination. The average return correlation between countries was 0.5688 before the assassination; but declined to 0.4157 after the assassination. This suggests that the assassination did not cause a rise in comovement of asset prices among emerging financial markets. Instead, they became less dependent following the assassination.

Table 2 presents return standard deviations before and after the assassination. For six out of seven countries, return standard deviations increased following the assassination. The increase in return standard deviations, however, is small. For Mexico, the standard deviation increased from 0.89 percent to 0.92 percent. For the market portfolio, the return standard deviation increased from 1.15 percent to 1.19 percent.

Abnormal Returns

Financial markets' reactions to the Colosio assassination for Mexican Brady bonds and for the rest of the emerging financial market are presented in Table 3. Table 3 reports security's abnormal returns from March 16, 1994 to April 6, 1994 (-1 week to +2 weeks around the assassination).

Abnormal returns for Mexico during event-days -5 to -2 before the assassination are statistically insignificant. On day -1, Mexican Brady bonds experienced a large positive abnormal return of 1.59 percent, which is statistically significant at the 1 percent level. On this day, Chiapas peace negotiator Manuel Camacho Solis announced that he would forgo a presidential bid. Mr. Camacho's bid for the presidency could have divided the ruling party and endangered the continuity of economic reforms that investors value.[9]

On the day of the assassination, Mexican Brady bonds experienced an abnormal return of -0.97 percent, which is statistically significant at the 5 percent level. The following day, Mexican Brady bonds declined further, experiencing a statistically significant abnormal return of -1.35 percent. On event-day +2, Mexican Brady bonds recorded a small positive abnormal return of 0.3 percent. Following this small increase, on day +3, Mexican Brady bonds declined by 1.15 percent, which is statistically significant at the 1 percent level. On March 29 (day +4), the Mexican ruling party named as its new presidential candidate Ernesto Zedillo. Mr. Zedillo was expected to continue on the path of economic reforms initiated by President Carlos Salinas. Mexican Brady bonds responded to the

[9] Political observers in Mexico said that Mr. Camacho posed the only real threat to Mr. Colosio presidency. Without him in the race, opinion polls showed that Mr. Colosio will have little trouble with candidates from the other two major parties. Hence, after tumbling in previous weeks, Mexican stocks soared on the news. The Mexican IPC index rose by 5.4 percent to close at 2,511.93 on March 22, 1994.

Table 2
Return standard deviations around the assassination of Luis Donaldo Colosio on March 23, 1994

Return standard deviations are calculated using return data from -3 months to -1 day before the assassination and from +1 day to +3 months after the assassination.

Country	12/23/93 - 3/22/94 (before)	3/24/94 - 6/24/94 (after)
Argentina	1.31%	1.50%
Mexico	0.89%	0.92%
Morocco	1.56%	1.51%
Nigeria	1.97%	2.84%
Peru	2.68%	3.94%
Philippines	1.42%	1.66%
Venezuela	1.79%	2.17%
Portfolio containing all countries	1.15%	1.19%

announcement with a positive abnormal return of 2.73 percent, which is statistically significant at the 1 percent level. With the Zedillo presidential candidacy announcement, Mexican Brady bonds recovered over 75 percent of the negative abnormal returns incurred during the four previous trading sessions. It is apparent that the announcement eliminated a major uncertainty associated with the Colosio assassination.

The assassination of Mexico's leading presidential candidate did not significantly affect Brady bond and loan prices in other emerging markets. On the day of the assassination, none of the emerging markets' bond and loan prices reacted significantly. For Latin American countries, their abnormal returns do not reveal significant spillover effects from the Colosio assassination. Abnormal returns for Argentine and Venezuelan Brady bonds are not statistically significant from day +1 through day +7. For Peru, abnormal returns on event-days +1 and +4 are statistically significant. However, these significant abnormal returns do not appear to be related to the Colosio assassination.[10] Instead, they reflect greater instability in the Peruvian financial markets. Three out of five abnormal returns during days -5 to -1 are also statistically significant. Furthermore, the return standard deviation for Peru during the first half of 1994 is almost twice the return

[10] We examined the Wall Street Journal and the New York Times Indices and could not find articles that attribute events taking place in Peru during the months of March and April 1994 to the Colosio assassination.

Table 3

Abnormal returns (ARs) from -1 week to +2 weeks (March 16 to April 6) around the assassination

Day zero corresponds to March 23,1994, the day of ruling party's presidential candidate Luis Donaldo Colosio assassination. The ARs are calculated using daily Brady bond and sovereign loan prices. The t-values are given in parentheses.

Event day	Mexico	Argentina	Morocco	Nigeria	Peru	Philippines	Venezuela
-5	0.0065(1.82)	-0.0037(-0.63)	0.0024(0.31)	0.009(0.68)	-0.0444(-2.82)**	0.0027(0.28)	-0.0008(-0.09)
-4	-0.0019(-0.51)	0.0069(1.14)	0.0078(0.98)	-0.0184(-1.34)	0.0165(1.01)	-0.0044(-0.44)	-0.001(-0.11)
-3	0.0007(0.19)	-0.0064(-1.01)	-0.0075(0.90)	-0.0111(-0.77)	0.0259(1.50)	0.0044(0.42)	0.0062(0.63)
-2	-0.0067(-1.75)	0.0043(0.70)	-0.014(-1.72)	0.0184(1.30)	0.0593(3.53)**	0.0159(1.55)	-0.0428(-4.46)**
-1	0.0159(4.065)**	-0.0096(-1.50)	-0.016(-1.92)	-0.0096(-0.66)	-0.0678(-3.94)**	0.0063(0.60)	0.0173(1.77)
0	-0.0097(-2.48)*	0.0098(1.53)	0.014(1.67)	-0.001(-0.07)	-0.0069(-0.40)	0.0099(0.94)	-0.0015(-0.15)
+1	-0.0135(-3.34)**	0.0023(0.35)	0.0195(2.27)*	-0.019(-1.28)	0.0623(3.51)**	-0.0075(-0.69)	0.0164(1.63)
+2	0.003(0.76)	-0.0112(-1.75)	0.0071(0.85)	0.0083(0.57)	-0.0037(-0.21)	0.0202(1.91)	-0.0154(-1.56)
+3	-0.0115(-2.95)**	0.0082(1.29)	-0.0438(-5.24)**	0.0396(2.74)**	-0.0097(-0.56)	0.0094(0.90)	0.007(0.71)
+4	0.0273(7.17)**	-0.0093(-1.51)	0.0229(2.82)**	-0.0677(-4.82)**	-0.0657(-3.93)**	0.0029(0.28)	0.0113(1.19)
+5	-0.0067(-1.73)	-0.0089(-1.41)	-0.0079(-0.96)	0.0434(3.02)**	-0.014(-0.82)	0.0155(1.48)	-0.0011(-0.11)
+6	0.0026(0.68)	-0.0034(-0.55)	0.004(0.50)	-0.0038(-0.27)	0.0015(0.09)	-0.02(-1.97)*	0.0176(1.85)
+7	-0.0009(-0.24)	-0.0052(-0.87)	0.0117(1.50)	0.0199(1.47)	0.0532(3.31)**	-0.0404(-4.12)**	-0.0018(-0.19)
+8	0.015(3.77)**	0.0237(3.65)**	-0.0111(-1.31)	0.0156(1.06)	-0.1531(-8.75)**	-0.0405(-3.79)**	0.0199(2.00)*
+9	-0.0074(-1.84)	-0.0024(-0.37)	0.0075(0.88)	0.0275(1.86)	-0.03(-1.7)	0.0037(0.34)	0.0127(1.26)
+10	-0.0078(-2.07)*	-0.0169(-2.75)**	-0.0158(-1.96)*	0.07(5.01)**	-0.0785(-4.72)**	0.0201(1.98)*	0.0303(3.19)**

*,** significant at the 5% and 1% level, respectively.

standard deviations for the rest of the emerging financial markets. For the remaining countries in our sample, no significant spillover effects appeared following the Colosio assassination.

Cumulative Abnormal Returns

To measure the intensity of the Mexican crisis on Mexican financial assets and the severity of spillover to emerging markets, we compute the cumulative abnormal returns for each countries included in the sample. Table 4 presents cumulative abnormal returns spanning the period day -5 through day +10 around the assassination.

For Mexico, the CAR from day -5 through day -1, is a statistically insignificant 1.5 percent. The CAR from day 0 through day +3 is -3.2 percent, which is statistically significant at the 1 percent level. From day +4, Mexican Brady bonds began to recover from the effect of the Colosio assassination. The CAR from day +4 through day +10 is 2.99 percent, which is statistically significant at the 1 percent level. By the end of the second week (day +10), Mexican Brady bonds completely recovered losses suffered from the political crisis. The CAR from day 0 through day +10 is -0.2 percent, which is not statistically significant.

For the rest of the emerging financial markets included in the sample, none of their CARs from day 0 through day +3 are statistically significant. With the exception of Morocco, they all registered positive CARs, albeit none of them are statistically significant.

Neighborhood Effects

Glick and Rose (1999), De Gregorio and Valdés (2001), Han, Lee and Suk (2003), and others find strong neighborhood effects and state that contagion stemming from a financial crisis tends to be regional rather than global. To investigate neighborhood effects stemming from a political crisis, we grouped countries based on their geographical locations and examined their reactions to the Colosio assassination. The three portfolios formed are: Latin America, Latin America excluding Mexico, and Non-Latin America. Table 5 presents abnormal returns and cumulative abnormal returns for these portfolios.

On March 23, 1994, the day of Colosio assassination, none of the abnormal returns are statistically significant. Furthermore, CARs for one and two weeks after the assassinations are all statistically insignificant. Hence, in contrast to the above mentioned studies, there is no neighborhood effect stemming from the Colosio assassination.

Results presented on tables 3 through 5 indicate that the Colosio assassination negatively affected Mexican Brady bonds for a short period, from day 0 to day +3. By the end of the second week, Mexican Brady bonds completely recovered losses suffered following the assassination. The following factors played significant roles in minimizing the shock from the Colosio assassination. First, the March 25, 1995 issue of the *Wall Street Journal* reported that the U.S. Treasury and the Federal Reserve Board were

Table 4

Cumulative abnormal returns from -1 week to +2 weeks (March 16 to April 6) around the assassination

The ruling party's presidential candidate Luis Donaldo Colosio was assassinated on March 23, 1994.
The t-values are given in parentheses.

Event day	Argentina	Mexico	Morocco	Nigeria	Peru	Philippines	Venezuela
[-5, -1] 3/16 - 3/22	-0.009 (-0.69)	0.015 (1.90)	-0.027 (-1.68)	-0.012 (-0.42)	-0.011 (-0.31)	0.025 (1.22)	-0.021 (-1.10)
[0, +1] 3/23 - 3/24	0.012 (1.54)	-0.023** (-4.82)	0.034** (3.26)	-0.02 (-1.12)	0.055** (2.62)	0.002 (0.19)	0.015 (1.23)
[0, +2] 3/23 - 3/25	0.001 (0.09)	-0.02** (-3.43)	0.041** (3.23)	-0.012 (-0.54)	0.052* (1.99)	0.023 (1.43)	-0.001 (-0.034)
[0, +3] 3/23 - 3/28	0.009 (0.82)	-0.032** (-4.66)	-0.003 (-0.22)	0.028 (1.11)	0.042 (1.40)	0.032 (1.75)	0.007 (0.38)
[0, +4] 3/23 - 3/29	-0.0002 (-0.02)	-0.004 (-0.58)	0.02 (1.21)	-0.04 (-1.41)	-0.024 (-0.71)	0.035 (1.71)	0.018 (0.93)
[0, +5] 3/23 - 3/30	-0.009 (-0.67)	-0.011 (-1.33)	0.012 (0.66)	0.004 (0.12)	-0.038 (-1.03)	0.05* (2.25)	0.017 (0.80)
[0, +6] 3/23 - 3/31	-0.013 (-0.85)	-0.009 (-0.94)	0.016 (0.82)	-0.0002 (-0.006)	-0.036 (-0.91)	0.03 (1.26)	0.034 (1.52)
[0, +10] 3/23 - 4/6	0.004 (0.20)	-0.002 (-0.16)	0.024 (0.99)	0.06 (1.50)	-0.17** (-3.35)	-0.05 (-1.54)	0.065* (2.30)

*, ** Significant at the 5* and 1* level, respectively.

Table 5
Abnormal returns (ARs) and cumulative abnormal returns (CARs) from -1 week to +2 weeks (March 16 to April 6) around the assassination

Day zero corresponds to March 23,1994, the day of ruling party's presidential candidate Luis Donaldo Colosio assassination. The ARs and CARs are calculated using daily Brady bond and sovereign loan prices. The t-values are given in parentheses.

Event date	Latin American Countries	Latin American countries excluding Mexico	Non-Latin American countries
-5	-0.0023 (-1.06)	-0.0096 (-2.18)*	0.0065 (1.06)
-4	0.0013 (0.57)	0.0045 (1.00)	-0.0036 (-0.56)
-3	0.0012 (0.52)	0.0021 (0.45)	-0.0035 (-0.53)
-2	-0.001 (-0.43)	0.0028 (0.61)	0.0027 (0.42)
-1	0.0014 (0.62)	-0.0105 (-2.24)*	-0.004 (-0.61)
0	-0.0036 (-1.52)	0.0017 (0.35)	0.0101 (1.52)
+1	0.0012 (0.49)	0.0155 (3.27)**	-0.0033 (-0.50)
+2	-0.0049 (-2.13)*	-0.0107 (-2.3)*	0.0138 (2.13)*
+3	-0.0016 (-0.68)	0.0064 (1.38)	0.0044 (0.68)
+4	0.0087 (3.84)**	-0.0088 (-1.94)*	-0.0243 (-3.83)**
+5	-0.0061 (-2.69)**	-0.0058 (-1.25)	0.0172 (2.69)*
+6	0.0031 (1.38)	0.003 (0.66)	-0.0088 (-1.38)
+7	0.0038 (1.70)	0.0069 (1.54)	-0.0106 (-1.71)
+8	0.0064 (2.71)**	-0.0021 (-0.44)	-0.0177 (-2.68)*
+9	-0.0034 (-1.40)	-0.0012 (-0.26)	0.0095 (1.41)
+10	-0.0124 (-5.45)**	-0.0152 (-3.32)**	0.0035 (5.47)**
[0, +5] 3/23 – 3/31	-0.0089 (-1.15)	-0.0017 (-0.16)	0.0179 (1.33)
[0, +10] 3/23 – 4/6	-0.0125 (-1.19)	0.0013 (0.11)	0.0091 (0.63)

*,** significant at the 5% and 1% level, respectively.

establishing a temporary $6 billion swap facility with Mexico, essentially giving Mexico a line of credit that allows it to borrow dollars and defend the peso. Second, Mexico had foreign-currency reserves of $30 billion and was prepared to use the reserves to defend the peso's value. Lastly, naming Ernesto Zedillo, a pro-investment candidate, as the ruling party's presidential candidate on March 29, six days after the assassination, helped to stabilize Mexican financial markets.

Our results also indicate that the Colosio assassination did not have significant spillover effects to other emerging financial markets. It is apparent that investors viewed the Colosio assassination as a local event, with significant implications only for Mexican financial assets rather than an event with regional or global implications. Furthermore, rapid and well managed responses by the Mexican government and the fact

that the assassination was carried out by an individual with no apparent ties to a political party or to an insurgent group minimized the shock of the assassination from spreading to other emerging financial markets.[11]

SUMMARY AND CONCLUSIONS

On March 23, 1994, the ruling party's presidential candidate Luis Donaldo Colosio was assassinated by Mario Aburto Martinez in Tijuana, Mexico. The Mexican peso, stock, and bond prices reacted negatively to the assassination. In addition, the reaction of emerging markets' stock, bond, and currency prices raised concerns about spillover effects to other emerging markets. Hence, in this paper we investigate the impact of the Colosio assassination on Mexican Brady bonds and its spillover effects to other emerging financial markets.

On the day of the assassination, Mexican Brady bonds declined by a statistically significant 0.97 percent. During the subsequent three trading days, Mexican Brady bonds continued to experience significant declines. On day +4 (March 29, 1994), the naming of Ernesto Zedillo as the ruling party's presidential candidate sent Mexican Brady bond prices higher. With this announcement, Mexican Brady bonds recovered over 75 percent of the negative abnormal returns incurred during the four previous trading sessions. By the end of the second week, Mexican Brady bonds completely recovered losses suffered from the political crisis.

The assassination of the leading Mexican presidential candidate did not significantly affect other emerging markets' financial assets.[12] Rapid and well coordinated responses by the Mexican government, a $6 billion swap facility established by the U.S. Treasury, large foreign currency-reserves held by the Mexican government, and the selection of Ernest Zedillo, a pro-investment candidate, as the ruling party's presidential candidate all played significant roles in minimizing the shock from the Colosio assassination spreading to other emerging financial markets.

[11] The March 29, 1994 issue of the *Wall Street Journal* recount behind-the scene tactics used by the Mexican authorities to maintain calm in Mexican financial markets. According to a U.S. portfolio manager, "The performance (by the Mexican authorities) was magnificent."

[12] Whether the assassination of leading presidential candidates in other countries will have the same impact on the host country's financial markets or on other emerging markets can't be generalized based on our findings. Since each incidence may contain significant idiosyncrasies, we must use care in drawing inferences from a single event. We thank an anonymous referee for this insight.

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