

Political uncertainty and capital raising through private offerings

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Abstract: We study how political uncertainty preceding U.S. gubernatorial elections affects the market for private offerings. Private offerings raise about 17 percent less capital during the months leading up to an election. This reduction is concentrated in weaker economic periods, and when interest rates are high, or sentiment low. The negative effect is ameliorated when a Republican candidate wins the gubernatorial election or when companies are backed by investors with deep pockets. Prior to elections we also observe higher intermediary fees, smaller capital raisings per investor, and larger geographic searches for investors. Collectively, our evidence illustrates that private offerings are more difficult to raise and intermediate when political uncertainty is high.

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I. Introduction

Political uncertainty has been shown to affect many important corporate financing decisions. For example, recent evidence establishes that political uncertainty significantly reduces initial public offerings (IPOs), mergers and acquisitions activity, and corporate investments (Çolak, Durnev, & Qian, 2017; Bonaime, Gulen, & Ion, 2018; Julio & Yook, 2012). Pastor and Veronesi (2012, 2013) provide theoretical support for these negative effects. According to their models, political uncertainty increases risk, which in turn increases the discount rate and lowers stock prices.² While this literature establishes that political uncertainty influences corporate financing decisions, it is silent on how such uncertainty relates to private issuers. Given that less than 0.02% of the estimated 5.8 million employee-based firms and 23.8 million non-employer firms in the US are currently exchange-listed firms³, it is important to understand whether and how political uncertainty affects private capital markets. For example, since many private issuers tend to rely on financing from limited and locally concentrated investor pools, it follows that private capital markets could be especially vulnerable to political uncertainty.

In this paper, we investigate the effect of political uncertainty on the market for private securities offerings from 2009 through 2019. Namely, we focus on the proceeds raised by of non-financial issuers under one of the most frequently used private offering exemptions – Regulation D. Based on the predictions in Pastor and Veronesi (2012, 2013), we hypothesize that political uncertainty will reduce private capital raising. Our findings corroborate this hypothesis. We estimate that private offerings raise about 17% less capital during the months that precede gubernatorial elections. Provided that our average offering is \$7.88 million, the results imply that the issuances are \$1.42 million smaller than issuances during other parts of the year.

The negative effect of political uncertainty appears to be ameliorated when a Republican candidate wins the gubernatorial election. Additionally, as predicted by the model of Pastor and Veronesi (2013), the

²Consistent with this logic, closely related studies on economic policy uncertainty (see Baker, Bloom, & Davis, 2016), also find economic policy uncertainty has negative effects on corporate activities.

³This statistic is for 2014. See <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>.

negative effect on private market capital raising is concentrated in periods when the local or national economy is not doing well. We find that when the state's economy is performing relatively poorly, the private offerings raise about 20% less capital. Similarly, when interest rates are high, political uncertainty reduces private capital raising by about 23%, which we interpret as identifying periods in which companies find bank financing more costly as an alternative financing source and therefore less reliable. Lastly, the capital raising of companies backed by investors with deep pockets such as venture capitalists (VCs) appears not to be significantly affected by political uncertainty. These results demonstrate how political uncertainty can reduce the private capital raising activities of companies that are relatively more financially vulnerable.

We also identify potential channels through which political uncertainty affects the private offerings market. Our additional tests suggest that the increase in political uncertainty is associated with higher intermediary fees, smaller capital raisings per investor, and potentially a reduced number of investors available to invest in the private securities of companies. These findings illustrate that a limited investor pool is an important channel through which political uncertainty affects the private offerings market.

This study makes contributions to several strands of the finance literature. First, we present evidence of a strong effect of political uncertainty in private capital markets, which to our knowledge has not been documented so far. Given the sheer size of these markets and the number of private companies relying on them for financing, we believe our study fills an important gap in the literature. Moreover, there has been a steady and significant decrease in the number of public reporting companies in the US, particularly since the dot-com crash and implementation of the Sarbanes–Oxley Act.⁴ During this period, private offerings of securities have contributed significantly to capital raising in the U.S. economy, particularly for small and emerging companies that are often considered to be the engine for creating new jobs,⁵ driving innovation, and for accelerating economic growth. Hence, private capital markets provide an

⁴ See Doidge, C., A. Karolyi, and R. Stulz, *The U.S. Listing Gap*, *The Journal of Financial Economics*, Vol 123, Issue 3, March 2017.

⁵ Estimates from the United States Small Business Administration show that small businesses accounted for 48% of U.S. employment during 2014 and contributed to creating 62% of all net new jobs during 1993–2016.

important financing alternative for companies that, for various reasons, forego financing in the public capital markets. Our study documents a strong negative effect of political uncertainty in these markets.

Second, we add to the literature on private offerings by examining a comprehensive dataset on the most popular type of private offerings—those made under Regulation D. Existing studies focus on various aspects of private offerings such as presence of intermediaries and effects of regulatory changes. Moreover, most studies on private offerings focus only on private offerings by public firms. In contrast, private offerings issued under Regulation D are dispersed across the US and involve companies from various industries and with different characteristics. Additionally, all companies using Regulation D are required to file Form D within 15 days of the commencement of the offering and provide the same, albeit limited, information on the offerings to the public (all of this is captured by our dataset). Thus, we examine private offerings that are representative of U.S. private markets. In this regard, we provide an important window into the corporate financing conditions of the U.S. economy.

Third, we contribute to the growing body of research that intersects finance and the political economy. We study the effect of political uncertainty on private offerings by using state gubernatorial elections as proxies for political uncertainty. To our knowledge, ours is the only comprehensive study that examines the effect of political uncertainty on capital raising through private offerings. Consistent with the results found for public offerings and other corporate activities, we document that the effect of political uncertainty on private offerings is large and negative. Another contribution of our study is that we identify channels through which this effect works in private offerings that are particular to companies reliant on private rather than public capital markets.

While our study has many strengths, our investigation of private securities offerings also has important limitations. One limitation is that, since the offerings are private, it is difficult to determine whether these companies have poor growth prospects ex ante and are simply choosing poor times to raise capital. To address this concern, we examine whether political uncertainty reduces the private capital

See <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>.

raisings of companies in our sample that had strong enough growth prospects to eventually be acquired or go public. Our logic is that even these companies probably face the challenges of information asymmetry, limited investor pools, and so forth, which would make them susceptible to political uncertainty. Consistent with our logic, we find that companies with good growth prospects also have smaller capital raisings prior to the state elections. Another limitation of our study is that we do not observe other corporate activities such as investment or employment that are likely to incur material reductions given the significant reduction in private securities offerings that we document. In this regard, we may understate the economic significance of the effects we observe.

The remainder of the paper is organized as follows. Section II lays out the theoretical underpinnings of the political uncertainty model and develops our hypotheses. Section III describes the sample and the empirical approach of the study. Section IV discusses the results of our analysis. Section V concludes the paper.

II. Theoretical motivation and hypothesis development

Theoretical work by Pastor and Veronesi (2012, 2013) defines *political uncertainty* as uncertainty about a government's future policy changes. These papers consider the government's policy decisions to be motivated by both economic and non-economic objectives (e.g., political costs), and it is the non-economic objectives that are uncertain, which makes it difficult for investors to fully anticipate which policy the government will choose. Pastor and Veronesi (2012, 2013) show that political uncertainty can increase risk premiums and discount rates. Thus, political uncertainty directly affects firm value and investor returns. For example, Pastor and Veronesi's (2012) model predicts that stock prices will react negatively upon the announcement of a policy change, since the uncertainty about the new policy's impact will increase the discount rate. In a large international study, Kelly, Pastor, and Veronesi (2016) find that political uncertainty is priced in the equity option market, which further demonstrates that political uncertainty can affect risk

premiums. Collectively, these studies establish that political uncertainty can affect how companies are valued in theory and in practice.

Following this logic, we expect political uncertainty to influence capital raising in private markets. We focus on political uncertainty generated by states' gubernatorial elections. State policies with respect to taxation, government contracts, subsidies, labor policies, unionization, and so on have a first-order effect on economic activities. These policies will also be directly affected by the actions of governors and state legislative bodies. In particular, uncertainty related to potential changes in state governorships and the composition of state legislative bodies and the corresponding effects of such changes on various state policies will directly affect the companies operating in these states.

We focus on governorships, which, unlike state legislative bodies, are administered by one chief executive, who has considerable influence over state policies. As argued by Julio and Yook (2012), elections in general offer two important benefits in studying the effect of political uncertainty: (a) they provide a way to disentangle some of the endogeneity between political uncertainty and economic growth, and (b) although standard economic models assume a single wealth-maximizing planner who makes choices over the life of the economy, the real world is characterized by leaders who face limited terms and could be replaced with other leaders who have different policy preferences. As a growing body of literature shows, the elections of governments' chief executives identify periods of political uncertainty (Julio & Yook, 2012; Çolak, Durnev, & Qian, 2017). Thus, we follow the approach in this literature and focus on state gubernatorial elections. Additionally, as Çolak, Durnev, and Qian (2017) argue, state elections are prescheduled and therefore could be viewed as exogenous events that affect political uncertainty. In this regard, the gubernatorial elections help us to identify exogenous periods of political uncertainty localized within companies' state of residence. Uncertainty is expected to increase on average in the months before the elections compared to other periods, which is what we use as our identification mechanism. Moreover, the timing of such elections varies across states, which allows us to exploit both time-series and cross-sectional variation in our sample. As discussed above, our main assumption is that political uncertainty arising from gubernatorial elections can affect private markets. Thus, the time-series and cross-sectional

variation also help to increase our study's statistical power to identify different channels through which political uncertainty may influence offerings of private securities.

The vast majority of companies that access private markets are private companies. There are several reasons to expect that political uncertainty related to state elections will have a significant impact on such companies. First, since private companies tend to be smaller and have more locally focused operations than their public counterparts, state government policies are likely to have a greater impact on important aspects of their activities. Uncertainty with respect to changes to state government policies will therefore significantly affect their operations and financing activities. Second, previous studies show that, relative to public companies, private companies tend to invest more and are more sensitive to changes in their investment opportunities (Asker, Farre-Mensa, & Ljungqvist, 2015). If political uncertainty affects private companies' investment opportunity set, it will probably also affect their capital raising. Third, private companies are generally more informationally opaque and thus more difficult to value than their public counterparts, which could exacerbate the impact of political uncertainty on investors' ability to value these companies accurately and hence their willingness to provide capital to these companies. Lastly, unlike public markets for which Kelly, Pastor, and Veronesi (2016) show that political uncertainty can be hedged with derivatives such as put options, such protections are not nearly as accessible for private markets. For example, there is no large market of financial intermediaries offering publicly quoted derivatives on private companies, as is the case for many public companies. Hence, if investors in private companies seek protection against exposure to political uncertainty, economic theory predicts that, all else being equal, the difficulties in hedging that exposure may also reduce their willingness to supply capital.

We hypothesize that political uncertainty related to state elections has a negative impact on capital raising in private markets. We expect that the companies using these markets would have difficulty raising capital when political uncertainty increases. Based on the predictions in Pastor and Veronesi (2013), we also expect that the impact of political uncertainty would be larger when a state's economy is weak. Unlike previous studies, we also examine the potentially differential effects of political uncertainty on capital raising through debt and equity securities. Debt securities are generally less informationally opaque than

equity securities. Thus, we may expect to see a more limited effect of political uncertainty on capital raising via private debt offerings.

Additionally, if political uncertainty leads investors to demand protections or to supply less capital to private securities, then, in equilibrium, intermediaries will incur higher search costs to secure capital in private markets. Furthermore, given the difficulty in securing protection, we expect that investors would be less willing to participate in private offerings during times of high political uncertainty, or, if they decide to participate, we would expect them to invest less during such periods.

III. Sample selection and data

To measure political uncertainty, we obtain data on U.S. state gubernatorial elections from the National Governors Association for the period 2009 to 2019. Following Gao, Murphy, and Qi (2019), our measure of political uncertainty is an indicator variable equal to 1 in the three months of July to October prior to a November election in that state in that year. As they note, the pre-election window coincides with most states' fiscal years ending in June and having a November election. All the variables are defined in the Appendix.

The private offering market is governed by several exemptions from registration, including those under Sections 4(a)(2), 3(b) and 3(a)(11) of the Securities Act. For example, Section 3(b) is the exemptive authority for Rule 504 under Regulation D and Regulation A, which was amended, effective June 2015, pursuant to Title IV of the JOBS Act. Other parts of the private market rely on "safe harbors": rules and regulations that set forth specific conditions that, if satisfied, ensure compliance with an exemption from registration. For example, issuers can use non-exclusive safe harbors such as Rule 506(b) of Regulation D, which is a safe harbor under Section 4(a)(2).

This study focuses on securities issuances by issuers that conduct unregistered offerings pursuant to Regulation D of the Securities Act. Currently, Regulation D comprises three rules: Rule 504, Rule 506(b), and Rule 506(c). Before 2016, another rule, Rule 505, existed, which allowed companies to raise up to \$5 million in a year, but that rule was repealed in 2016. Regulation D remains a widely used regulation for

conducting unregistered offerings of securities. More than \$1.8 trillion was reported as sold during 2017, the highest levels reported since Form D filings became machine readable in 2008. This amount is larger than the amount of capital raised by public equity and debt offerings combined. It is likely that the reported data on Regulation D offerings underestimate the actual amount raised through offerings where the issuer intended to rely on Regulation D, since there is no final Form D to indicate the final amount raised by an offering and the filing of Form D is not a prerequisite for using the exemption. Most of the \$1.8 trillion was reported raised through Rule 506(b), which allows an issuer to raise an unlimited amount of money, but prohibits general solicitation and general advertising and limits investor participation to accredited investors and up to 35 sophisticated, non-accredited investors. While most of the capital raised in the Regulation D market in 2017 was raised by pooled investment vehicles (\$1,671 billion), we focus on the amount of capital raised by non-financial issuers. Those are the quintessential small businesses that would be affected by political uncertainty.⁶ Regulation D offerings are popular with small businesses: There have been more than 100,700 issuances by non-financial issuers since 2009, with a median offer size of less than \$1 million.

Panel A of Table 1 presents summary statistics for our sample. The median offering size is approximately \$700,000, which underscores the fact that the users of Regulation D are primarily small companies. This is corroborated by the age of the companies undertaking private offerings—the median company is younger than 5 years. The median number of investors participating in such offerings is six, with the vast majority being accredited investors. Although companies can use any type of securities in Regulation D offerings, the predominant securities are equity and debt. Equity offerings tend to be larger than debt offerings. The median equity offering raised approximately \$860,000, whereas the median debt offering raised less than half that amount—\$420,000.

Panel B of Table 1 presents the univariate comparison between capital raised in months prior to gubernatorial elections and in months outside the election cycle. As the results suggest, companies tend to

⁶Pooled investment vehicles include hedge funds, private equity funds, venture capital funds, commodity pools, and a few other types of funds. In this paper, we use the terms “pooled investment vehicles” and “funds” interchangeably. Non-financial issuers are defined as operating companies that are outside the financial sector.

raise significantly less capital via private offerings in the months prior to a gubernatorial election. While the univariate findings are consistent with our hypothesis, we note that this framework does not allow for any control variables. Thus, we next explore multivariate regression.

IV. Results

In this section, we present our empirical results. We begin our analysis with the study of the general effects of political uncertainty on private offerings. After that, we examine potential factors that could alleviate or exacerbate the effects of political uncertainty. Lastly, we examine potential channels through which political uncertainty affects capital raising in private markets.

IV.A. Effects of political uncertainty on private offerings

To investigate the effect of political uncertainty on private offerings, we regress the amount of capital raised in private offerings (*Net sold*) on our measure of political uncertainty, *PreElectionMonths*, the indicator that takes a value of 1 for the three months prior to the gubernatorial election in that state and year. Specifically, we use the following regression model:

$$\ln(1+\text{Net sold}_{i,s,t}) = a*\text{PreElectionMonths}_{s,t} + \mathbf{b}*X_{i,s,t} + \mathbf{c}_{s,y} + \mathbf{d}_m + \mathbf{e}_{i,s,t} \quad (1)$$

where i , s , and t denote private issuer i , in state s , in month t . $X_{i,s,t}$ denotes the control variables in our regressions. The offer-specific control variables include the number of investors who participate in the issuance, the squared term of the number of investors, firm age, and a dummy variable equal to 1 when firm age is 5 years or older. We include economic controls from the previous quarter to account for the time-varying economic conditions that may also influence private issuance. The economic controls include the income generated within each state, the term structure of interest rates, the credit risk premium, and the performance of the aggregate stock market. We also include $c_{s,y}$ which denotes state-year fixed effects that control for unobservable local trends within any given state and year that may affect private issuance. All regressions include monthly fixed effects (d_m) to account for seasonality and standard errors clustered by state-filing quarter.

We take the natural log of 1 plus *Net sold*, and we do the same for the offer-specific controls listed

above. We use the natural log to account for skewness and non-normality. We add 1 to the variable to retain the zeros in the data, as they are economically meaningful. For example, if nothing is sold (i.e., *Net sold* = 0) or the issuer is new (i.e., *firm age* = 0), we would not want either of these observations to be ignored.

The results are shown in Table 2. The first three columns use as a dependent variable the aggregate capital raising in private offerings. Column 3 shows that the private issuances raised during the three months before the gubernatorial elections are about 17% smaller than offerings during other times.⁷ Given that the average offering is \$7.88 million, the results imply that such issuances are \$1.42 million smaller than issuances during other parts of the year. The results suggest that political uncertainty significantly effects private capital raising. The coefficients on the political uncertainty variable are negative and statistically significant in all three specifications. Thus, in line with results from studies on other economic activities, political uncertainty appears to have a negative effect on capital raising by private companies. In columns 4 through 9, we separate private offering capital raising by type of security: equity vs debt. The table shows that the equity and debt proceeds of private offerings are about 12% and 30% smaller, respectively, during the periods proceeding elections than in other periods. Collectively, the findings indicate that increased political uncertainty is associated with a lower amount of capital raised in private offerings. The effects seem to be more pronounced on debt offerings. Figure 1 plots the effects of political uncertainty on total capital raising and on debt and equity offerings separately.

Next, we examine whether the degree of political uncertainty plays a role in how it affects capital raising in private markets. First, since political uncertainty is generally lower when an incumbent is re-elected or when the incumbent's party wins the election, we modify our independent variable to capture these two situations. Panel A of Table 3 presents the results of this analysis. The effect of political uncertainty remains negative and significant, and the coefficients on the main variable of interest in the various specifications are similar in magnitude to those in Table 2.

⁷17% = $\exp(-0.183) - 1$.

Second, the effect of political uncertainty on private companies' capital raising may depend on the type of party that wins the state election. Generally, Republican candidates are considered more pro-business than their Democratic counterparts. Thus, whether a Republican or Democratic candidate wins the elections may have important implications for the effect of political uncertainty on private companies in terms of government policies related to employees, unions, government contracts, taxes, and so on. Additionally, the political cycle modeled in Pastor and Veronesi (2020) predicts that decreased risk aversion leads to Republicans being elected, because less risk-averse voters favor pro-business policies. Their model predicts that Democrats would be elected during periods of increased risk aversion, which coincide with higher discount rates and hence larger risk premiums. Therefore, we expect to observe that political uncertainty has a relatively more pronounced effect in elections won by Democratic candidates. Panels B and C of Table 3 present the results in which we restrict the pre-election indicator to take a value of 1 when a Republican or Democratic candidate wins the state election, respectively. Consistent with the theoretical prediction in Pastor and Veronesi (2020), we find that the effect of political uncertainty is still significantly negative in elections won by Democrats and negative but not statistically significant in elections won by Republicans. There is also a difference in the effects on the type of security—a Democratic win has a stronger negative effect on equity securities than on debt securities. Thus, the results in Panel C of Table 3 are consistent with the idea that a Republican win may result in a lower degree of political uncertainty for private firms.

Third, in Panel D of Table 3, we examine the effect of heightened political uncertainty in the form of a change in gubernatorial candidates. Businesses may be more familiar with the policies of an incumbent whose actions they have had the chance to observe for a certain time. They may have more difficulty determining what the policies of a new candidate may be, which may increase political uncertainty. To capture this potential effect, we restrict the pre-election indicator to take a value of 1 during elections in which no incumbent candidate is on the ballot. Consistent with our previous results, we find that, when the candidates change, the effect on capital raising is negative and significant. The negative effect is concentrated mostly in equity offerings. Figure 2 summarizes the effects on total capital raising of political

uncertainty due to the type of candidates that win the gubernatorial elections. The negative effect is smallest when a Republican candidate wins the election and more significant when a Democratic candidate wins, an incumbent wins, or when there is no incumbent on the ballot.

Lastly, to study the effect of heightened political uncertainty on companies that should be less likely to be affected by it, we examine the impact of such uncertainty on successful companies. We identify successful companies in two ways: (a) companies that eventually make it to an IPO or are acquired, and (b) companies that receive venture capital backing. Although these are ex-post measures of firm quality, we expect them to be highly correlated with a company's prospects. In this regard, the two indicators of successful companies help us to better establish whether a time of high political uncertainty reduces capital raising for private companies with strong growth prospects or with access to deep pockets. Following the models of Pastor and Veronesi (2013), we expect that an increase in discount rates, and hence a decline in valuations, would reduce the capital raising for firms with high growth prospects. In contrast, economic theory predicts that firms with access to deep pockets, such as VC backing, should be less affected by political uncertainty. Thus, we expect to observe that the gubernatorial elections have a significantly negative effect on companies that have successful exits and not a significant effect on companies that are VC-backed.

The results from this analysis are presented in Table 4. Panel A of Table 4 lists the results for companies that eventually go public or are acquired. Such companies also experience significant decreases in capital raising during periods of heightened political uncertainty. The evidence suggests that these decreases are concentrated in private debt offerings. Political uncertainty's negative effects on companies that eventually have successful exits are consistent with the predictions from theory. Panel B of Table 4 lists the results for VC-backed companies. Such companies generally do not seem to experience significant decreases in capital raising during periods of heightened political uncertainty; only the cases when they raise capital through debt offerings is the coefficient on the main explanatory positive and significant. Notably, we find evidence that VC-backed companies raise larger debt proceeds during the pre-election periods, which suggests that electoral uncertainty may influence the choice of raising equity versus debt

funding, but it does not significantly reduce these companies' total capital raising. The findings are consistent with our predictions.

Overall, the results in Tables 2, 3, and 4 suggest that political uncertainty has a strong negative effect on capital raising in private markets. This effect is partly ameliorated for high-quality companies—for them, political uncertainty mostly affects their debt offerings. The effect seems to be mitigated when a Republican candidate wins the state elections, which is consistent with theoretical predictions that market participants respond to pro-business policies. The theoretical models that we follow also predict that the effect of political uncertainty on private markets will be concentrated in times of weaker economic conditions. Thus, in the next section, we explore whether the state of the economy plays a role in the effect of political uncertainty on private offerings.

IV.B. Factors that mediate the effects of political uncertainty

In this section, we examine the potential factors that could dampen or aggravate the effects of political uncertainty on private capital raising. First, we consider the state of the economy. As mentioned above, Pastor and Veronesi (2013) predict that the effects of political uncertainty would be more pronounced when the economy is weaker. Columns 1 and 2 of Table 5 show evidence consistent with this prediction. We find that the negative impact of political uncertainty is concentrated in periods when state income is below its long-term median level, and we do not observe a significant impact when state income is above its long-term median level.

Second, one could argue that bank loans could be an alternative source of capital for private companies and hence could ameliorate the potential negative effects of political uncertainty on capital raising through private offerings. In fact, a number of studies show that small private companies, even at an early stage in their lifecycle, rely on bank loans for financing.⁸ Unfortunately, we do not have data on borrowings for our sample companies and thus are unable to show whether sample companies tend to

⁸ For example, see Robb and Robinson (2014).

increase their reliance on bank loans during periods of high political uncertainty. We do explore the potential effect of the availability of borrowing on capital raising via private offerings, however, by examining the effect of interest rates. The analysis is presented in columns 3 and 4 of Table 5. The results show that the effect of political uncertainty on capital raising in the private market is particularly strong when the interest rates are high. This is intuitive, given that higher interest rates make it more costly to borrow money.

Lastly, we consider sentiment as another measure of the overall state of the economy. Economic theory predicts that sentiment is negatively associated with the costs of external capital. Thus, we expect that periods of high sentiment would attenuate the negative effect of political uncertainty and that low sentiment would make matters worse. Consistent with economic intuition, the results in columns 5 and 6 of Table 5 show that the negative effect of political uncertainty is observed when sentiment is low and not present when sentiment is high. The results suggest that the negative effects of political uncertainty for capital raising in private markets are concentrated in periods in which businesses are particularly sensitive to the ability to raise capital through private securities offerings. Taken together, these results regarding sentiment further demonstrate the importance of political uncertainty in private markets.

Collectively, the findings presented in Table 5 show that the effects of political uncertainty on private offerings can vary with the state of the economy. Figure 3 plots the effects of the state of the economy on capital raising. Specifically, the negative effect of political uncertainty on private offerings is concentrated in periods in which the local economy is weaker, borrowing costs are higher, or sentiment is lower. The results demonstrate that private offerings can be particularly vulnerable to political uncertainty that coincides with weaker economic conditions, which is consistent with the theoretical predictions of Pastor and Veronesi (2013). Next, we study whether political uncertainty also increases the transaction costs associated with intermediation in private markets.

IV.C. Channels through which political uncertainty affects private offering capital raising

We now turn our focus to identifying the channels through which political uncertainty affects capital raising through private offering. Since we cannot estimate the cost of capital for private offerings, we examine the effect of political uncertainty on the costs of conducting an offering. More specifically, we consider the cost of using an intermediary to conduct an offering. Unlike public offerings, intermediaries are not always present at private offerings. In fact, only approximately 15% of private offerings involve intermediaries such as broker-dealers or finders. Using an intermediary presents a trade-off for an issuer. On the one hand, it makes it easier to conduct a private offering, since the issuer does not have to demonstrate that it has a pre-existing relationship with potential investors (under Rule 506(b) of Regulation D) or that all investors are accredited (under Rule 506(c) of Regulation D). Intermediaries in private offerings ensure that the offering is made to pre-qualified investors. On the other hand, intermediaries charge fees. Thus, an issuer would have to consider the trade-off between the cost of intermediation and the costs of undertaking the offering without an intermediary. For offerings that rely on intermediaries, we study the effect of political uncertainty on the fees that companies pay to the intermediaries involved.

Panel A in Table 6 shows the results of the intermediary fee analysis. Holding all else constant, economic theory predicts that the costs associated with intermediation would increase as the demand for private offerings decreases. We find that, on average, political uncertainty is not associated with higher intermediation costs for private offerings. When we divide the securities into debt and equity, however, we find that political uncertainty significantly increases the intermediary costs for equity offerings. The intermediary fees for offerings raised during the three months before the gubernatorial elections are about 26% higher than the fees for offerings during other times. Thus, our analysis shows that one potential channel through which political uncertainty negatively affects private equity offerings is the increased costs of financial intermediation.

Next, we consider the availability of investors in private offerings as another channel through which political uncertainty could affect fundraising via private offerings. One way for political uncertainty to negatively affect capital raising is through the reduced number of investors who participate in such offerings. Most of the Regulation D offerings (over 90% according to Bauguess et al., 2018) are made via

Rule 506(b), which prohibits general solicitation and advertising. When companies are prohibited from advertising and soliciting investors, they are required under Rule 506(b) to have some type of pre-existing relationship with potential investors to ensure that these investors understand the risks involved in the offering. This means that companies are most likely to target investors from their own state, since such investors are most likely to fit the requirements of Rule 506(b). If it is difficult to locate investors in the home state, then companies would try to expand their search in numerous other states. We examine how likely companies are to expand the search for investors when political uncertainty increases.

In Panel B of Table 6, we use as a dependent variable a dummy variable that equals 1 if a company markets its securities to investors in all states, and 0 otherwise. We find that higher political uncertainty pushes companies to seek investors in all states, indicating that companies probably have difficulty attracting investors from their own state. When we split the analysis by type of offering, we find that this result is primarily driven by equity offerings. For debt offerings, the coefficient on the dummy variable is not significant.

Related to the size of the investor pool, we also examine the minimum offering sizes that companies use during periods of heightened political uncertainty. If companies are worried that, due to increased political uncertainty, they may not be able to raise the capital they need, they would probably raise the minimum required to deem the offering a success. Panel C in Table 6 presents the result of this analysis. While the results for the overall sample are not statistically significant, we do find significant results for the subsample of debt offerings. When political uncertainty is high, companies tend to raise the minimum sizes of their debt offerings. This is consistent with the argument that companies are trying to ensure that they raise enough capital when political uncertainty increases.

Lastly, we examine whether the amount of capital raised per investor in private offerings changes during periods of heightened political uncertainty. We conjecture that, because of the increased uncertainty, investors may curtail the amount of capital they are willing to invest in private companies in such periods, resulting in lower amounts raised per investor in private offerings. On the other hand, it is also possible that investors do not restrict the amount of capital they are willing to provide but require higher compensation

for parting with their capital. Thus, whether the amount of capital raised per investor changes in periods of heightened political uncertainty is an empirical question.

The results from this analysis are presented in Table 7. We find that during periods of increased political uncertainty, the amount of capital per investor decreases significantly, contributing to the overall decrease in capital raising. The result holds for both equity and debt securities.

V. Conclusion

This paper studies the effect of political uncertainty on the capital raising activities in the private offerings market. While previous studies examine the effects of political uncertainty on a number of corporate activities, none examines how political uncertainty affects the large and important market for private offerings. Given that numerous, mostly private companies access that market, our study seeks to shed light on how political uncertainty affects capital raising for a vast swath of the economy. Using the U.S. gubernatorial elections as our identification strategy, we perform a number of tests to determine the effect of political uncertainty on this unstudied market.

We find a strong negative effect of political uncertainty on capital raising via private offerings. The effect is negative and significant for both equity and debt offerings. The effect seems to be mitigated to a certain extent when a Republican candidate wins the state elections. Our results also suggest that weak macroeconomic conditions and higher interest rates tend to exacerbate the negative impact of political uncertainty. Companies with good prospects are also negatively affected, while companies backed by deep-pocket investors such as VCs tend to be insulated from the negative effect of political uncertainty.

We also seek to identify potential channels through which heightened political uncertainty affects capital raising in private markets. We find that political uncertainty increases the costs of equity offerings in the form of higher intermediary fees. We also find evidence that suggests that during periods of high political uncertainty, companies struggle to find investors in their own state and try to compensate for this by approaching investors in other states. When raising capital through debt offerings, companies tend to increase the offering minimum to ensure that the offering is successful.

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Appendix—Variable definitions

Variable	Definition
<i>baa_aaa</i>	The difference between the yield on BAA-rated and AAA-rated corporate bonds
<i>Fees</i>	Intermediary fee paid in a Reg D offering
<i>Firm age</i>	The age of the firm, in years, if 333 less than 5 years
<i>Firm age 5 plus</i>	An indicator variable equal to 1 if the firm is at least 5 years old, and 0 otherwise
<i>Income</i>	Average state personal income
<i>Net sold</i>	The amount of capital raised in a Reg D offering
<i>Numinvestors</i>	The number of investors in a Reg D offering
<i>Pre-Election Months</i>	An indicator variable that takes a value of 1 during July through October of the year in which the state has a gubernatorial election
<i>Consumer sentiment</i>	University of Michigan Consumer Sentiment Index
<i>t10y3m</i>	The difference between the yield on a 10-year Treasury bond and 3-month Treasury bill
<i>Vwretd SP500</i>	The value-weighted return on the S&P 500 portfolio

Table 1 Summary Statistics and Private Offerings During Elections.

This table presents summary statistics for private proceeds of non-financial issuers obtained from Form D from 2009 to 2019. We restrict the sample to issuers' equity and debt offerings. We obtain issuance characteristics from Form D and match proceeds to issuers' state of residence. Following Gao et al. (2019), *Pre-Election Months* is an indicator variable that takes a value of 1 in July through October of the year in which the state has a gubernatorial election. Within the gubernatorial election cycle of most states, the months identify the end of the fiscal year in June through the month before November elections. Election data are obtained from the National Governors Association. Panel A presents summary statistics for the issuance characteristics and issuer-level and economy-wide control variables. Panel B presents means for private proceeds raised during pre-election and non-election months. All variables are defined in the Appendix.

Table 1, Panel A: Summary Statistics

	Mean	P50	Min	Max	SD	Count
Netsold _{All} (\$M)	7.88	0.70	0.00	105,000	297	143,163
Netsold _{Equity} (\$M)	8.60	0.86	0.00	105,000	328	112,762
Netsold _{Debt} (\$M)	5.21	0.42	0.00	17,449	124	30,401
ln(1+Netsold _{All})	11.70	13.46	0.00	25.38	5.34	143,163
ln(1+Netsold _{Equity})	11.75	13.67	0.00	25.38	5.49	112,762
ln(1+Netsold _{Debt})	11.54	12.94	0.00	23.58	4.76	30,401
Pre-Election Months	0.09	0.00	0.00	1.00	0.29	143,163
lnNuminvestors	1.83	1.79	0.00	9.08	1.19	143,163
lnNuminvestors_sq	3.38	3.26	0.00	18.16	2.50	143,163
lnFirm_age	0.76	0.69	0.00	1.79	0.61	105,830
Firm age 5plus (0,1)	0.30	0.00	0.00	1.00	0.46	143,163
lnIncome_mill_lag1	13.16	13.22	10.08	14.79	1.15	143,163
lnVwretd SP500_lag1	0.03	0.04	-0.25	0.15	0.07	143,163
t10y3m_lag1	1.90	1.94	-0.20	3.79	1.00	136,329
baa_aaa_lag1	1.03	0.94	0.55	3.38	0.39	143,163

Table 1, Panel B: Private Offerings Around Gubernatorial Elections

	Pre-Election Months	Non-Election Months	Difference	t-stat	p-value
ln(1+Netsold _{All})	11.51	11.72	-0.21	-4.26	0.00
ln(1+Netsold _{Equity})	11.55	11.77	-0.21	-3.78	0.00
ln(1+Netsold _{Debt})	11.37	11.55	-0.18	-1.96	0.05

Table 2 Private Issuances and Political Uncertainty.

This table reports the effect of gubernatorial elections on private offerings from 2009 to 2019. Using the equity and debt proceeds of non-financial private issuers, we estimate Eq 1. The dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t . As in Gao et al. (2019), *Pre-Election Months* is an indicator variable that takes a value of 1 in July through October of the year in which the state has a gubernatorial election. The months identify the periods between the end of the fiscal year in June and the November election of most states. All models include state-year and monthly fixed effects (FEs). Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) ln_netsold eq+debt	(2) ln_netsold eq+debt	(3) ln_netsold eq+debt	(4) ln_netsold eq	(5) ln_netsold eq	(6) ln_netsold eq	(7) ln_netsold debt	(8) ln_netsold debt	(9) ln_netsold debt
pre_election_months	-0.176** (0.078)	-0.175*** (0.052)	-0.183*** (0.055)	-0.177** (0.085)	-0.127** (0.060)	-0.131* (0.066)	-0.164 (0.155)	-0.339** (0.142)	-0.363** (0.148)
ln_numinvestors		27.461*** (0.150)	27.416*** (0.150)		28.052*** (0.194)	27.988*** (0.194)		26.023*** (0.322)	26.047*** (0.341)
ln_numinvestors_sq		-11.971*** (0.072)	-11.952*** (0.072)		-12.267*** (0.095)	-12.237*** (0.095)		-11.280*** (0.147)	-11.296*** (0.155)
ln_firm_age		0.389*** (0.019)	0.381*** (0.019)		0.428*** (0.024)	0.419*** (0.022)		0.409*** (0.041)	0.404*** (0.043)
firm_age_5plus		0.168** (0.062)	0.182*** (0.064)		0.165** (0.081)	0.182** (0.084)		0.183 (0.116)	0.187 (0.121)
ln_income_mill_lag1			1.591 (1.033)			1.336 (1.230)			2.007 (2.105)
ln_vwretd_SP500_lag1			-0.244 (0.169)			-0.137 (0.222)			-0.749*** (0.250)
t10y3m_lag1			0.037 (0.037)			0.028 (0.047)			0.106* (0.060)
baa_aaa_lag1			0.040 (0.044)			0.059 (0.054)			-0.036 (0.066)
Constant	11.718*** (0.016)	1.441*** (0.048)	-19.584 (13.630)	11.763*** (0.017)	1.427*** (0.048)	-16.257 (16.256)	11.554*** (0.033)	1.354*** (0.119)	-25.160 (27.749)
Observations	143,162	105,829	100,796	112,761	85,477	81,386	30,390	20,331	19,384
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.035	0.593	0.592	0.039	0.596	0.595	0.036	0.592	0.589

Table 3 Do Different Types of Elections Affect Private Offerings?

This table reports the effect of different gubernatorial elections on private offerings from 2009 to 2019. Using the equity and debt proceeds of non-financial private issuers, we estimate Eq 1. The dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t . In each Panel, we further restrict *Pre-Election Months* to take a value of 1 during gubernatorial election cycles in which the incumbent candidate wins (Panel A), a Democrat or Republican candidate wins (Panels B, C), or the incumbent candidate does not run (Panel D). Columns 1–3 report results for all proceeds; we report equity and debt results in Columns 4–6 and Columns 7–9, respectively. As before, all models include state-year and monthly fixed effects (FEs). The estimated coefficients on the constant and the control variables are not reported. Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 3, Panel A: Incumbent Elections									
VARIABLES	(1) ln_netsold eq+debt	(2) ln_netsold eq+debt	(3) ln_netsold eq+debt	(4) ln_netsold eq	(5) ln_netsold eq	(6) ln_netsold eq	(7) ln_netsold debt	(8) ln_netsold debt	(9) ln_netsold debt
premonths_incumbent_ party_win	-0.198* (0.102)	-0.180*** (0.064)	-0.174** (0.069)	-0.198 (0.124)	-0.139** (0.067)	-0.130* (0.074)	-0.184 (0.175)	-0.306* (0.171)	-0.312* (0.174)
Observations	132,768	98,682	93,649	104,715	79,762	75,671	28,045	18,903	17,956
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.035	0.596	0.594	0.039	0.599	0.598	0.034	0.590	0.588

Table 3, Panel B: Republican Wins									
VARIABLES	(1) ln_netsold eq+debt	(2) ln_netsold eq+debt	(3) ln_netsold eq+debt	(4) ln_netsold eq	(5) ln_netsold eq	(6) ln_netsold eq	(7) ln_netsold debt	(8) ln_netsold debt	(9) ln_netsold debt
premonths_ republican_win	-0.070 (0.096)	-0.116 (0.074)	-0.103 (0.077)	-0.063 (0.108)	-0.066 (0.079)	-0.054 (0.082)	-0.128 (0.179)	-0.282 (0.186)	-0.277 (0.177)
Observations	132,768	98,682	93,649	104,715	79,762	75,671	28,045	18,903	17,956
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.035	0.596	0.594	0.039	0.599	0.598	0.034	0.590	0.588

Table 3, Panel C: Democrat Wins									
VARIABLES	(1) ln_netsold eq+debt	(2) ln_netsold eq+debt	(3) ln_netsold eq+debt	(4) ln_netsold eq	(5) ln_netsold eq	(6) ln_netsold eq	(7) ln_netsold debt	(8) ln_netsold debt	(9) ln_netsold debt
premonths_ democrat_win	-0.197* (0.117)	-0.174** (0.070)	-0.174** (0.076)	-0.202 (0.146)	-0.149** (0.071)	-0.137* (0.080)	-0.157 (0.193)	-0.259 (0.184)	-0.290 (0.191)
Observations	132,768	98,682	93,649	104,715	79,762	75,671	28,045	18,903	17,956
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.035	0.596	0.594	0.039	0.599	0.598	0.034	0.590	0.588

Table 3, Panel D: No Incumbent Candidate									
VARIABLES	(1) ln_netsold eq+debt	(2) ln_netsold eq+debt	(3) ln_netsold eq+debt	(4) ln_netsold eq	(5) ln_netsold eq	(6) ln_netsold eq	(7) ln_netsold debt	(8) ln_netsold debt	(9) ln_netsold debt
premonths_ change_candidate	-0.061 (0.084)	-0.153** (0.073)	-0.172** (0.081)	-0.090 (0.099)	-0.149** (0.075)	-0.160* (0.084)	0.010 (0.159)	-0.122 (0.157)	-0.155 (0.151)
Observations	132,768	98,682	93,649	104,715	79,762	75,671	28,045	18,903	17,956
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.035	0.596	0.594	0.039	0.599	0.598	0.034	0.590	0.588

Table 4 Do Successful Private Issuers Raise Less in the Months Before Elections?

This table reports the effect of gubernatorial elections on the private offerings of issuers that have a successful exit, as identified by eventually having an initial public offering (IPO) or becoming acquired, or receiving venture capital (VC) funding. Using the equity and debt proceeds of non-financial private issuers from 2009 to 2019, we estimate Eq 1. As before, the dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t . Panel A restricts the sample to IPO and acquired firms; Panel B restricts the sample to firms that received VC funding. Columns 1–3 report transactions that are from private offerings of equity and debt; offerings of equity and debt are shown separately in Columns 4–6 and Columns 7–9, respectively. As before, all models include state-year and monthly fixed effects (FEs). The estimated coefficients on the constant and control variables are not reported. Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 4, Panel A: Eventual IPO and M&A Targets									
VARIABLES	(1) ln_net_per debt+eq	(2) ln_net_per debt+eq	(3) ln_net_per debt+eq	(4) ln_net_per eq	(5) ln_net_per eq	(6) ln_net_per eq	(7) ln_net_per debt	(8) ln_net_per debt	(9) ln_net_per debt
pre_election_months	-0.025 (0.162)	-0.332** (0.162)	-0.285* (0.166)	0.068 (0.186)	-0.272* (0.165)	-0.232 (0.172)	-0.407 (0.258)	-0.578* (0.321)	-0.642** (0.317)
Observations	17,741	10,361	9,843	13,841	8,261	7,846	3,813	2,011	1,907
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.052	0.342	0.339	0.058	0.348	0.346	0.047	0.348	0.341

Table 4, Panel B: VC-Funded Issuers									
VARIABLES	(1) ln_net_per debt+eq	(2) ln_net_per debt+eq	(3) ln_net_per debt+eq	(4) ln_net_per eq	(5) ln_net_per eq	(6) ln_net_per eq	(7) ln_net_per debt	(8) ln_net_per debt	(9) ln_net_per debt
pre_election_months	0.104 (0.108)	-0.029 (0.121)	-0.009 (0.127)	-0.024 (0.126)	-0.173 (0.135)	-0.191 (0.137)	0.429* (0.220)	0.762** (0.297)	0.826*** (0.312)
Observations	16,882	9,786	9,369	12,978	7,841	7,499	3,829	1,852	1,779
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.046	0.285	0.276	0.048	0.276	0.267	0.046	0.324	0.321

Table 5 The Effect of Political Uncertainty on Private Offerings During Different Economic Conditions.

This table reports the effect of gubernatorial elections that coincide with different economic conditions on private offerings from 2009 to 2019. Using the equity and debt proceeds of non-financial private issuers, we estimate Eq 1. The dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t . In each panel, we divide the sample into issuances during quarters in which an economic indicator was above or below its time-series median value. The economic indicators include the personal income generated in each state (Columns 1, 2), the term structure of interest rates (Columns 3, 4), and sentiment (Columns 5, 6). The income data are from the U.S. Bureau of Economic Analysis; the term structure is measured as the difference between the 10-year and the 3-month constant maturity Treasury, as reported by the St. Louis Federal Reserve Bank; the sentiment data are from the University of Michigan. We report results for all equity and debt proceeds. As before, all models include state-year and monthly fixed effects (FEs). The estimated coefficients on the constant and control variables are not reported. Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
	Income Low ln_netsold eq+debt	Income High ln_netsold eq+debt	Term Structure Low ln_netsold eq+debt	Term Structure High ln_netsold eq+debt	Sentiment Low ln_netsold eq+debt	Sentiment High ln_netsold eq+debt
pre_election_months	-0.216*** (0.075)	-0.131 (0.101)	-0.095 (0.127)	-0.266*** (0.079)	-0.236*** (0.074)	-0.137 (0.107)
Observations	49,012	51,784	45,110	55,684	50,313	50,479
Offer Controls	Y	Y	N	Y	N	Y
Econ Controls	Y	Y	N	N	N	N
State-Year FE	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y
Cluster	State-Quarter	State-Quarter	State-Quarter	State-Quarter	State-Quarter	State-Quarter
Adj R2	0.576	0.606	0.597	0.589	0.578	0.604

Table 6 Does Political Uncertainty Affect the Transaction Costs of Private Offerings?

This table reports the effect of gubernatorial elections on the intermediation costs of private offerings from 2009 to 2019. In these regressions, the dependent variables are the intermediation characteristics of the offerings of non-financial private issuer i in state s in month t . Panel A reports the results of a regression where the dependent variable is the log of 1 plus the commission fees of the issuance, where the sample is restricted to offerings with commission fees. Panel B reports results of a regression where the dependent variable is an indicator variable that equals 1 when the offer is solicited in all states, rather than only the issuer's state of residence. Panel C reports the results of a regression where the dependent variable is the log of 1 plus the investment minimum of the issuance. Columns 1–3 report transactions that are from private offerings of equity and debt; offerings of equity and debt are examined separately in Columns 4–6 and Columns 7–9, respectively. The intermediation details are from Form D. As before, all models include state-year and monthly fixed effects (FEs). The estimated coefficients on the constant and control variables are not reported. Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 6, Panel A:									
Fees	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	ln_comiss debt+eq	ln_comiss debt+eq	ln_comiss debt+eq	ln_comiss eq	ln_comiss eq	ln_comiss eq	ln_comiss debt	ln_comiss debt	ln_comiss debt
pre_election_months	0.053 (0.100)	0.141 (0.099)	0.155 (0.104)	0.120 (0.103)	0.210** (0.110)	0.229** (0.114)	-0.249 (0.178)	-0.179 (0.224)	-0.198 (0.244)
Observations	11,478	7,348	7,051	9,396	6,268	6,015	1,990	996	955
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.082	0.113	0.113	0.106	0.115	0.116	0.102	0.227	0.238

Table 6, Panel B: Soliciting in All States (0,1)									
VARIABLES	(1) all (0,1) debt+eq	(2) all (0,1) debt+eq	(3) all (0,1) debt+eq	(4) all (0,1) eq	(5) all (0,1) eq	(6) all (0,1) eq	(7) all (0,1) debt	(8) all (0,1) debt	(9) all (0,1) debt
pre_election_months	0.001 (0.002)	0.006* (0.003)	0.005* (0.003)	0.002 (0.003)	0.006* (0.003)	0.005 (0.003)	0.001 (0.006)	0.005 (0.006)	0.004 (0.006)
Observations	143,162	105,829	100,796	119,662	90,346	86,039	23,485	15,453	14,725
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster Adj R2	State- Quarter 0.047	State- Quarter 0.068	State- Quarter 0.067	State- Quarter 0.056	State- Quarter 0.078	State- Quarter 0.077	State- Quarter 0.023	State- Quarter 0.025	State- Quarter 0.026

Table 6, Panel C: Investment Minimums									
VARIABLES	(1) ln_min debt+eq	(2) ln_min debt+eq	(3) ln_min debt+eq	(4) ln_min eq	(5) ln_min eq	(6) ln_min eq	(7) ln_min debt	(8) ln_min debt	(9) ln_min debt
pre_election_months	0.029 (0.068)	0.064 (0.079)	0.033 (0.082)	-0.035 (0.075)	-0.017 (0.088)	-0.057 (0.092)	0.314** (0.158)	0.496*** (0.174)	0.515*** (0.180)
Observations	143,162	105,829	100,796	119,662	90,346	86,039	23,485	15,453	14,725
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster Adj R2	State- Quarter 0.072	State- Quarter 0.126	State- Quarter 0.126	State- Quarter 0.076	State- Quarter 0.134	State- Quarter 0.133	State- Quarter 0.070	State- Quarter 0.101	State- Quarter 0.102

Table 7 Do Private Issuers Raise Less per Investor in the Months Before Elections?

This table reports the effect of gubernatorial elections on the proceeds raised per investor of private offerings from 2009 to 2019. In these regressions, the dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t divided by the number of investors in the issuance. We further modify Eq 1 by removing the number of investors and its squared term from the offer-specific controls to avoid spurious correlation between the dependent variable and the control variables. As before, Columns 1–3 report transactions from private offerings of equity and debt; offerings of equity and debt are shown separately in Columns 4–6 and Columns 7–9, respectively. As before, all models include state-year and monthly fixed effects (FEs). The estimated coefficients on the constant and control variables are not reported. Standard errors are clustered by state-filing quarter and reported in parenthesis. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) ln_net_per debt+eq	(2) ln_net_per debt+eq	(3) ln_net_per debt+eq	(4) ln_net_per eq	(5) ln_net_per eq	(6) ln_net_per eq	(7) ln_net_per debt	(8) ln_net_per debt	(9) ln_net_per debt
pre_election_month s	-0.098 (0.069)	-0.210*** (0.075)	-0.223*** (0.078)	-0.075 (0.078)	-0.189** (0.084)	-0.193** (0.088)	-0.252* (0.137)	-0.319* (0.175)	-0.389** (0.183)
Observations	125,338	91,103	86,822	103,832	77,075	73,433	21,488	13,989	13,348
Offer Controls	N	Y	Y	N	Y	Y	N	Y	Y
Econ Controls	N	N	Y	N	N	Y	N	N	Y
State-Year FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cluster	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter	State- Quarter
Adj R2	0.008	0.010	0.010	0.009	0.012	0.012	0.012	0.015	0.015

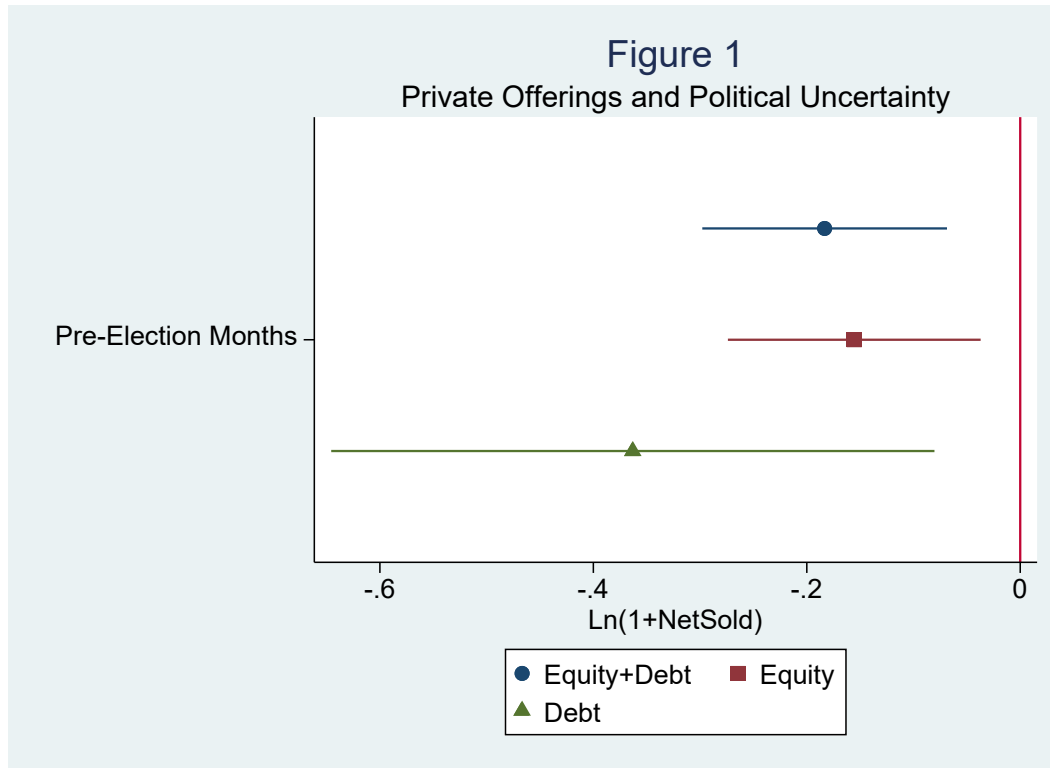


Figure 1. Private Offerings and Political Uncertainty

This figure plots coefficient estimates of the effect of political uncertainty on private offerings from 2009 to 2019. Estimates are based on the ordinary least squares panel regressions of Table 2, Model (3). Plotted are the coefficient estimates of Pre-Election Months and their 95% confidence intervals (from standard errors clustered by state-filing quarter). Using the equity and debt proceeds of non-financial private issuers, we estimate the following regression:

$$\ln(1+Netsold_{i,s,t}) = a*PreElectionMonths_{s,t} + b*X_{i,s,t} + c_{s,y} + d_m + e_{i,s,t} \quad (1)$$

where the dependent variable is the log of 1 plus the net proceeds of private issuer i in state s in month t . Private proceeds and issuance characteristics are obtained from Form D and matched to the issuer's state of residence. Following Gao et al. (2019), *Pre-Election Months* is an indicator variable that takes a value of 1 during July through October of the year in which the state has a gubernatorial election. Within the gubernatorial election cycle of most states, these months identify the end of the fiscal year through the month before November elections. Election data are obtained from the National Governors Association. $X_{i,s,t}$ labels the control variables, used in Table 2, Model (3); $c_{s,y}$ labels state-year fixed effects that control for unobservable local trends within any given state and year that may affect private issuance. All regressions include monthly fixed effects (d_m) to account for seasonality and standard errors clustered by state-filing quarter. The plots show that private proceeds are reduced by about 17% (measured as $-17\% = e^{(-0.18)} - 1$) during the months preceding gubernatorial elections, and equity and debt proceeds are reduced by about 12% and 30%, respectively.

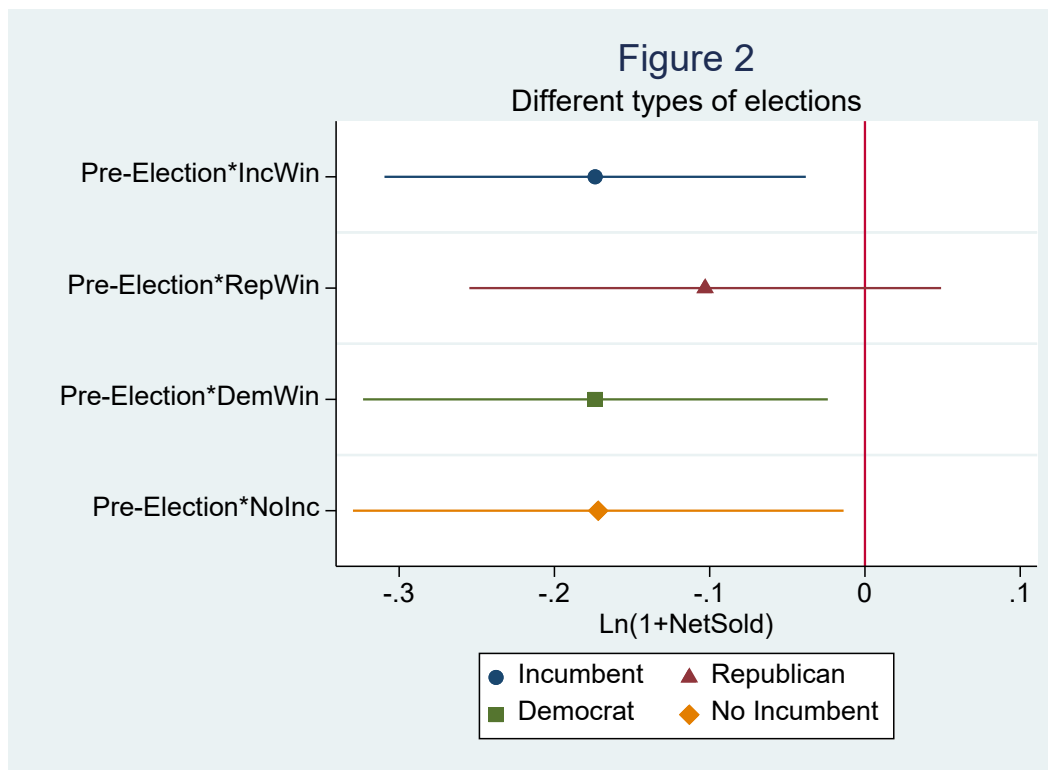


Figure 2. Private Offerings and Different Types of Election

This figure plots coefficient estimates of the effect of different types of policy uncertainty on private offerings from 2009 to 2019. Estimates are based on the ordinary least squares panel regressions of Table 3, Model (3). Plotted are the coefficient estimates of *Pre-Election Months* and their 95% confidence intervals (from standard errors clustered by state-filing quarter). In these regressions, we modify Eq 1 to further restrict *Pre-Election Months* to take a value of 1 during gubernatorial election cycles in which the incumbent candidate wins (Incumbent), a Republican or Democrat candidate wins, or the incumbent candidate does not run (No Incumbent). The plots show that private proceeds are reduced by about 16% (measured as $-16\% = e^{-0.17} - 1$) during the months preceding gubernatorial elections in which incumbents win and by about 0% and 16% during Republican and Democrat winning-election cycles, respectively. In election cycles in which there is no incumbent on the ballot, the plot shows that private proceeds are reduced by about 16%. As before, all regressions include state-year fixed effects, control variables, monthly fixed effects, and standard errors clustered by state-filing quarter.

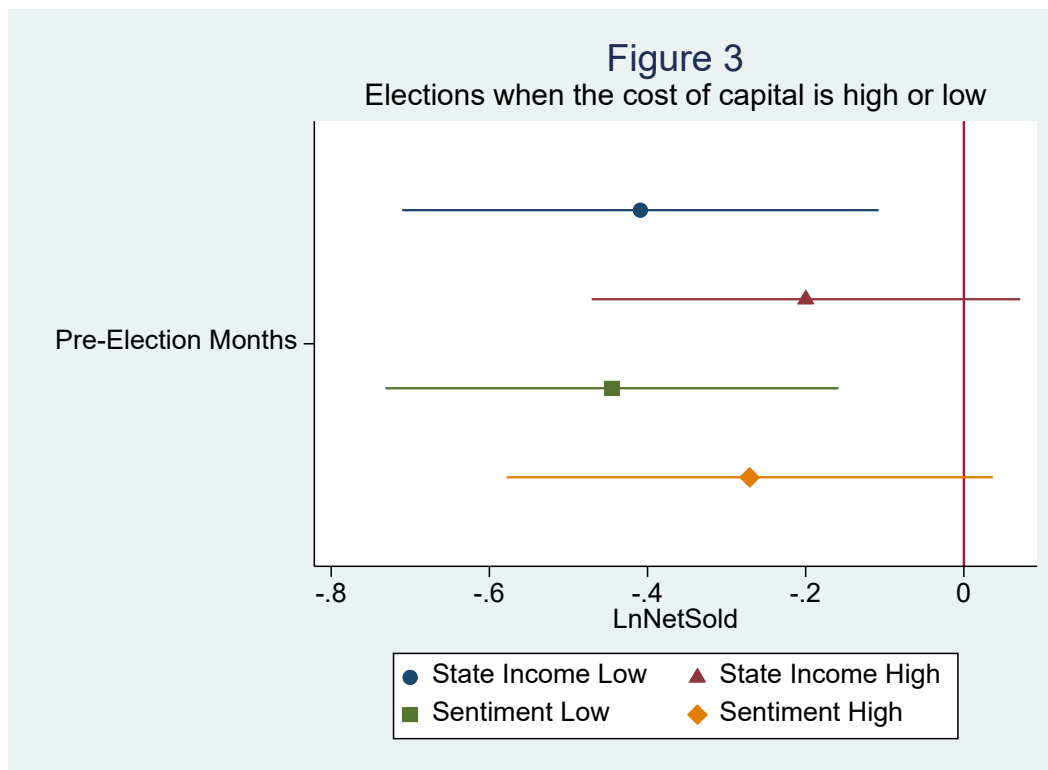


Figure 3. Private Offerings and Elections When the Cost of Capital Is High or Low

This figure plots coefficient estimates of the effect of political uncertainty on private offerings from 2009 to 2019 that are issued during periods in which the cost of capital is relatively high or low. Estimates are based on the ordinary least squares panel regressions of Table 5, Models (1) and (2). Plotted are the coefficient estimates of Pre-Election Months and their 95% confidence intervals (from standard errors clustered by state-filing quarter). In these regressions, we estimate Eq 1 on offers issued during periods in which the personal income in the state is above or below the time-series median value for each state. We also split the sample into periods above and below the time-series median value of the term structure and sentiment.

The plots show that when the income generated within the state is relatively low, private offerings issued in the months prior to elections are about 19% smaller (measured as $-19\% = e^{(-0.22)} - 1$) and not significantly smaller when income is higher. The plots also show a similar effect of political uncertainty on private proceeds when sentiment is low (-21%) and no significant relation when sentiment is high. We obtain sentiment data from the University of Michigan. We estimate a similar negative pattern for elections that occur when term structure is higher (-23%; not pictured), which suggests that political uncertainty is particularly costly during periods that coincide with higher borrowing costs. As before, all regressions include state-year fixed effects, control variables, monthly fixed effects, and standard errors clustered by state-filing quarter.