Firm-level Political Risks and Newly Issued Corporate Debt Maturity

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Abstract

I examine the impact of firm-level political risk on the maturity structure of newly issued corporate debt. Using Hassan et al.'s (2019) political risk measure, I find that heightened political uncertainty leads firms to issue shorter-maturity debt. This relation holds across multiple proxies for new debt maturity and various econometric techniques designed to alleviate endogeneity concerns. The effect is especially profound for smaller firms, those with lower credit ratings, and firms with patents nearing expiration. Path analysis confirms that cash flow volatility partially mediates the relationship between political risk and new debt maturity. Conversely, political bipartisanship, contributions/lobbying to the federal ruling party, and alignment with the federal government at the industry and state levels help moderate the relationship. Clustering analysis indicates a significant uptick in shorter-term debt issuance during Q1-Q3 of presidential election years. Collectively, these findings underscore the significance of firm-level political risks in shaping corporate debt maturity decisions.

Keywords: Firm-level political risk; New debt issuance; Patent maturity; R&D; Lobbying.

JEL classifications: G21, G32, D81

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1. Introduction

Firm-level political risks —emerging from regulatory shifts, policy instability, and macroeconomic fluctuations—significantly shape corporate financial decisions and strategic responses, unlike operational risks, which originate from internal management (Bailey and Chung, 1995; Bloom et al., 2006).[1] Political risk persists despite diversification, remains unpredictable, and disrupts firms' financing and investment activities (e.g., Hassan et al., 2019; King et al., 2021; Waisman et al., 2015). Surveys highlight their impact—Deloitte (September 2024) found that 58% of CFOs viewed the 2024 elections as highly consequential, while a Q2 2024 CFO survey reported that nearly 30% of firms altered their investment plans due to election-related uncertainty.[2]

In this paper, I examine whether firm-level political risks influence the maturity structure of newly issued corporate debt. To measure firm-level political risk, I use the quarterly measure of Hassan et al. (2019), which relies on textual analysis of U.S. firms' earnings call transcripts to create a firm-specific political risk index. This index captures cross-firm variation within industries, influenced by lobbying efforts, geographic location, and political ties, and reflects firms' exposure to regulatory changes and policy alignment. I also use data on newly issued corporate debt maturities from SDC Platinum from Q1 2002 to Q1 2022. I find that firms systematically shorten the maturities of new debt issuances in response to elevated political risks.[3] While studies like Datta et al. (2019), Gad et al. (2024), Gyimah et al. (2022), and Li (2020) link macro-level political uncertainty to long-term leverage

[1] A recent political risk survey by Willis Towers Watson and Oxford Analytica revealed that 55% of global organizations with annual revenues surpassing USD 1 billion have encountered at least one political risk-related loss exceeding USD 100 million. The most frequently reported loss stemmed from foreign exchange transfer restrictions, impacting nearly 60% of affected firms. Political violence followed closely, affecting 48%, while import and export embargos accounted for losses in 40% of cases. See https://www.insurancebusinessmag.com/.

[2] A survey by the Federal Reserve Banks of Atlanta and Richmond, and the Duke University's Fuqua School of Business. See https://www.cfo.com/news/.

[3] Prior corporate finance literature primarily assesses political uncertainty through macro-level indices such as policy uncertainty, geopolitical risk indices, and election cycle risks (e.g., Ben-Nasr et al. (2020); Bloom (2009); Francis et al. (2014); Gulen and Ion (2016); Julio and Yook (2012); Pástor and Veronesi (2012); Pástor and Veronesi (2013); Waisman et al. (2015)).

in existing debt structures, this paper is the first to show that firm-level political risk directly influences the maturity of new debt issuances.[4]

I use the interest expense ratio (IER) and R&D-to-sales ratio as additional proxies for new debt maturity, as both capture firms' responses to financing conditions.[5] Higher IER reflects reliance on costlier existing debt, while lower R&D intensity signals reduced longer-term investment. I find that firm-level political risk significantly raises IER and lowers R&D expenses, consistent with a shift toward shorter maturities under uncertainty.[6] These findings align with prior research showing that higher borrowing costs drive firms toward shorter-term debt (e.g., Bharath et al., 2007; Graham et al., 2008), while longer-maturity debt supports higher leverage and innovation (Barclay and Smith, 1995; Hao and Wu, 2024).[7] Firm-level political risk exacerbates credit constraints (Gertler and Gilchrist, 1994) and creates uncertainty around tax policies, reducing the value of interest deductibility (Gertler and Hubbard, 1989; Sanati and Beyhaghi, 2021).[8] De Mooij and Hebous (2018) show that thin capitalization rules, limiting interest deductibility, reduce debt usage and distress risk, underscoring the importance of tax stability. IER thus captures reliance on debt tax shields and is a more stable proxy than effective tax rates (e.g., Miller and Scholes, 1978; Auerbach, 1984; Graham, 2000).

To address endogeneity concerns and provide more causal insights, I employ a Bartik-style instrument using the national geopolitical risk index, following Goldsmith-Pinkham (2020), to isolate exogenous variation in firm-level political risk. Additionally, I conduct a propensity score matching

[4] New debt issuance differs from refinancing or restructuring, focusing on expansions, investments, acquisitions, and working capital. Existing debt structure reflects past liabilities shaped by historical financing decisions and economic conditions, while new issuance addresses current risks, including political factors at the firm level.

[5] Interest expense ratio (IER)= total interest expense/total existing debt; R&D-to-sales ratio= R&D expense/net sales.

[6] Firms with high IER prefer shorter-term debt to manage servicing costs, reduce interest payments, maintain flexible financing, and avoid long-term commitments amid uncertainty or high financing costs.

[7] Johnson (2003) observed that short-term debt can help mitigate the debt overhang problem. Similarly, Paligorova and Santos (2017) indicate that banks depending more on wholesale funding (e.g., insured deposits) prefer providing shorter-maturity loans.

[8] While firms may initially rely more on interest expensing as a tax shield, heightened uncertainty about future tax policies and earnings reduces the expected benefit of long-term debt. As a result, firms avoid locking into long-term commitments and favor short-term debt for greater flexibility. Guceri and Albinowski (2021) show that while tax incentives stimulate investment under stable conditions, their effectiveness weakens during periods of uncertainty—particularly for firms most exposed to policy risk. This highlights how uncertainty can undermine the intended impact of tax-based investment incentives.

(PSM) test to compare firms with similar characteristics, validating the negative impact of political risk on new debt issuance maturity.

Next, I examine potential channels through which firm-level political risks impact the maturity of new debt issuances. I start by employing a path analysis to examine whether cash flow volatility mediates the relationship between political risk and debt maturity. A Sobel test (Preacher & Hayes, 2008) confirms that firm-level political uncertainty influences new debt issuance maturity not only through direct channels but also by exacerbating cash flow volatility, further discouraging long-term debt commitments.[9] This finding aligns with prior research (e.g., Cremers & Yan, 2010; Hasan et al., 2022; Huang et al., 2023; Lartey et al., 2021), which documents that firms facing heightened political risk experience more severe financial constraints, cash flow volatility, and default risk.

I then examine how credit ratings moderate the relationship between firm-level political risks and newly issued debt maturity. I find that firms with stronger credit ratings secure longer-term debt, while firms with weaker credit profiles face stricter borrowing constraints, relying more on short-term financing under heightened political uncertainty.[10] This aligns with the debt maturity choice model of Diamond (1991) and credit rationing theory of Stiglitz and Weiss (1981), which suggest that financially weaker firms face higher borrowing costs and limited access to credit.

I also highlight the role intellectual property plays in debt maturity decisions. The results suggest that firms with at least one patent expiring within three and five years shorten new debt maturities in the following quarter amid higher political uncertainty. This behavior is driven by

[9] The Sobel test is designed to measure the indirect effect of political risk on new debt issuance maturity through the mediator (cash flow volatility or CFV). The significant indirect effect (via cash flow volatility) indicates that political risk is impacting new debt issuance maturity through its influence on cash flow volatility.

[10] From a signaling perspective, higher-rated firms are better positioned to maintain stable long-term financing structures, as their strong credit standing signals lower default risk to creditors. In contrast, firms with lower credit ratings shorten new debt issuance maturity as a precautionary measure to avoid potential increases in borrowing costs stemming from heightened political uncertainty. Under agency theory by Jensen and Meckling (1976), politically vulnerable firms with weak credit profiles opt for shorter-term new debt to mitigate risk and maintain financial flexibility. This aligns with the argument that firms with lower ratings have fewer options for external financing and must adjust their new debt issuance structures more aggressively in response to uncertainty.

volatilities surrounding future cash flows and strategic adjustments linked to patent expirations, consistent with Hao and Wu (2024).

Additionally, I investigate whether the effect varies with firm size. I show that the impact of political risk is more pronounced for smaller firms, which face greater challenges in securing long-term financing than larger firms. This is consistent with Saba (2025), who suggests that larger firms can hedge risks through geographic diversification and financial flexibility. Acharya and Xu (2017) find that riskier firms rely more on cash holdings than bank loans, highlighting the tighter credit constraints faced by smaller firms in uncertain environments. Kakhbod et al. (2025) further show that small firms with constrained cash flows depend on cash reserves due to high external financing costs.

Using annual lobbying and campaign contribution data, I also find evidence consistent with firms securing longer-term debt financing when they contribute more to the ruling federal party. By constructing a bipartisanship index and analyzing total contributions (hard money) to both parties, I show that firms strategically balancing their contributions across both parties are better positioned to withstand political uncertainty, facilitating access to long-term debt. These findings align with Hill et al. (2013) and Hill et al. (2014), who show that higher political lobbying is positively related to excess returns and firm value.

Furthermore, I demonstrate that political alignment at the industry level with the ruling government enhances firms' access to long-term debt financing, while misaligned industries, facing greater regulatory uncertainty, issue shorter debt maturities. Analysis of gubernatorial election outcomes reveals that firms in states with governors politically aligned with the federal administration benefit from favorable borrowing conditions, whereas firms in misaligned states issue shorter-term debt. These findings, supported by placebo tests, align with Houston et al. (2014), who show that political connections reduce borrowing costs, ease capital expenditure restrictions, and enhance financial flexibility.

Using fixed-effects panel regression and binary logistic regression models, I identify a clustering effect in corporate new debt issuance maturities during election years, with firms shortening debt maturities in the three quarters leading up to the presidential elections. Additionally, I examine the combined impact of political and monetary policy uncertainty (MPU), as measured by Baker et al. (2016), which focuses on the unpredictability of central bank actions, interest rate movements, and changes in the money supply. The analysis reveals that heightened MPU and elevated political risk lead firms to favor shorter-term debt issuance. To ensure robustness, I also implement a dynamic panel model, which confirms the validity of the fixed-effects specification and reinforces the main findings.

The preference for shorter maturities during uncertain periods is well-documented in the corporate finance literature. Firms prefer short-term debt to avoid the rigidity of long-term commitments (e.g., Almeida et al., 2011; Goyal and Wang, 2013).[11] While short-term debt entails rollover risk, its lower initial cost and greater flexibility make it particularly attractive when rising interest rates or political uncertainty heighten the cost of long-term refinancing (e.g., Bharath et al., 2007; Graham et al., 2008). Additionally, it allows firms to reassess and potentially refinance under improved conditions (Diamond, 1991). Despite the stability of the U.S. legal system, political uncertainty remains high, driven by shifts in taxation, regulation, and social benefits, all of which influence business cycles (e.g., Alesina and Roubini, 1992; Porta et al., 1997; Waisman et al., 2015). U.S. executives heavily engage in lobbying to influence regulations (Hassan et al., 2019), and political risk remains a significant factor impacting both domestic and global markets (Brogaard et al., 2020).

To my knowledge, no prior research has examined the cross-sectional impact of firm-level political risk on the maturity structure of newly issued debt, as opposed to country-level political risk and existing debt maturity structures explored in previous studies (See Ben-Nasr et al., 2020; Francis

[11] When long-term debt becomes either inaccessible or prohibitively expensive, firms are compelled to turn to short-term debt as their only viable option. Moreover, locking into long-term debt under high uncertainty risks overpayment, making short-term debt a flexible option that offers refinancing opportunities as conditions stabilize.

et al., 2014; Waisman et al., 2015; Datta et al., 2019; Li, 2020; Gyimah et al., 2022). The findings of this paper offer practical implications: firms can adjust capital structures and enhance stakeholder communication to navigate political uncertainty; managers can build more resilient financing strategies; investors and creditors can better price risk; and policymakers can craft regulations to cushion the impact of uncertainty on corporate funding.

2. Literature Review

Theoretical frameworks offer competing explanations for why firms opt for shorter-maturity new debt in response to heightened political risk. The rollover risk hypothesis suggests that creditors demand higher risk premiums under higher uncertainty, discouraging long-term borrowing (Jasova et al., 2018).[12] [13] The asset substitution hypothesis posits that short-term debt can curb managerial risk-taking, potentially reducing borrowing costs (Gavish & Kalay, 1983).[14] The trade-off theory of capital structure (Modigliani & Miller, 1958) posits that firms balance the benefits of debt (tax shields) with the costs of financial distress. Myers (1977), Myers (1984), and Myers and Majluf (1984) argue that asymmetric information and agency concerns push firms toward internal financing and cautious debt use. Market timing theory further suggests equity issuance is favored when firms are overvalued (e.g., Asquith and Mullins, 1986; Baker and Wurgler, 2002; Chang et al., 2006; Loughran and Ritter, 1995; Marsh, 1982), a tendency amplified by policy uncertainty (Cui et al., 2021).

[12] Political instability heightens market volatility, complicating firms' access to favorable debt terms. Uncertainty erodes investor confidence, driving up interest rates or limiting capital access. Regulatory shifts can disrupt operations, increasing lending risks. Political events impact revenue and cash flow, affecting debt servicing and refinancing. Clear evidence emerged on August 1, 2023, when Fitch downgraded the US credit rating due to governance concerns. A nonpartisan investor survey in January 2021 found that 90% of institutional investors see rising threats to democracy, yet under 30% believe US firms are equipped to manage political risk, with only 45% deemed well-prepared. See https://corpgov.law.harvard.edu/.

[13] Rollover risk involves potential costs when firms must refinance maturing debt. Gopalan, Song and Yerramilli (2014) find that firms with a higher proportion of long-term debt maturing within the next year face increased rollover risk, leading to credit rating downgrades. This supports the findings of this paper by demonstrating that political uncertainty, which increases rollover risk, can shorten new debt issuance maturity

[14] Asset substitution occurs when management replaces high-quality assets with lower-quality ones post-credit analysis. However, the asset substitution hypothesis suggests that firms with more short-term debt face closer scrutiny and frequent renegotiations, reducing default risk by mitigating asset substitution issues Jensen and Meckling (1976).

Existing research links macroeconomic policy uncertainty to conservative corporate financial strategies, investment delays, fewer acquisitions, and reduced risk exposure (e.g., Bloom, 2009; Pástor and Veronesi, 2013; Julio and Yook, 2012). It also limits market access, increasing reliance on costlier private debt and shifting capital structure toward equity (Francis et al., 2014; Kim, 2019; Jang et al., 2023; Rahman et al., 2024; Waisman et al., 2015). Riskier firms face higher borrowing costs (Gad et al., 2024), while politically connected firms fare better during periods of high risk (Jia et al., 2023).

Elevated borrowing costs drive firms toward shorter-term debt (e.g., Barclay and Smith (1995); Bharath et al. (2007); Gopalan et al. (2014); Kaviani et al. (2020)). In response to heightened uncertainty, firms increase cash holdings and favor short-term financing to preserve liquidity (Demir and Ersan, 2017; Hasan et al., 2022; Phan et al., 2019). Cremers and Yan (2010), Lartey et al. (2021), Hasan et al. (2022), and Huang et al. (2023) further document that firms facing heightened political risk experience more severe financial constraints, cash flow volatility, and higher risk of default.

Prior research shows that political risk exposure varies across firms due to geographic, regulatory, and firm-specific factors (Eberhart, 2017; Guo et al., 2016; Marciukaityte, 2018). Firms in highly regulated or high-tax jurisdictions are more vulnerable to policy shocks, while lobbying can mitigate risks under certain regulatory conditions (Guo et al., 2016). Firms with high leverage or weak institutional backing are more vulnerable to political shocks (Eberhart, 2017; Marciukaityte, 2018). By synthesizing these strands of literature, I address how firm-level political risk, distinct from country-level risk, shapes the maturity structure of newly issued corporate debt.

3. Sample and Variable Construction

To compute the firm-level political risk (Prisk), Hassan et al. (2019) decompose each firm i's conference call transcript in quarter t into a sequence of bigrams b, where $b = 1, \ldots, B_{it}$ period from Q1-2002 to Q1-2022 (latest update). The proportion of bigrams containing a political topic within ten words of synonyms for "risk" or "uncertainty" is calculated relative to the total number of bigrams in the transcript. This ratio serves as the estimated level of political uncertainty for a firm i in quarter t:

$$PRisk_{it} = \frac{\sum_b^{B_{it}}(1[b \in \mathbb{P} \setminus \mathbb{N}] \times 1[|b - r| < 10] \times \frac{f_{b\mathbb{P}}}{B_{\mathbb{P}}})}{B_{it}}$$

where 1[•] denotes the indicator function, while $\mathbb{P} \setminus \mathbb{N}$ represents the set of bigrams present in P but absent in N. The variable r signifies the position of the closest synonym for "risk" or "uncertainty." Additionally, $f_{b\mathbb{P}}$ refers to the occurrence count of bigram b within the political training dataset, and $B_{\mathbb{P}}$ denotes the total number of bigrams within this dataset. A higher PRisk value indicates an elevated level of firm-specific political risk. The primary independent variable in this study is the natural logarithm of PRisk, represented as Log(PR), mitigating skewness and heteroskedasticity.

Detailed information on quarterly U.S. corporate debt issuances from 2002 to 2022 is obtained from the SDC Platinum database via Refinitiv Eikon. The full sample includes 79,289 individual debt issuance observations at the issue level, covering public bonds, private debt (non-Rule 144A), Rule 144A securities, and syndicated loans. In the first step, these are aggregated to the firm-quarter-issue-type level, resulting in a consolidated sample of 41,380 observations. Next, the data are further aggregated to the firm-quarter level by calculating the issue-size-weighted average maturity of all new debt issued by a firm in that quarter: $\frac{\sum_j(new\ debt\ issued_{ijt} \times maturity_{ijt})}{\sum_j(new\ debt\ issued_{ijt})}$, where j indexes different issue types. This final aggregation yields 8,872 firm-quarter observations, which are then merged with firm-level political risk measures and financial characteristics. The use of issue-size weighted average maturity controls for issuance volume differences and reflects aggregate financing strategy in response to political risk.[15] The primary variable of interest, Log(Maturity), represents the natural logarithm of

[15] The first step of aggregating by issue type allows to retain some granularity (e.g., capturing the fact that a firm may issue both public bonds and 144A debt in the same quarter), while reducing noise from extremely granular deal-level data. The final aggregation provides a clean, interpretable dependent variable: the overall maturity decision of a firm in a given quarter, accounting for the size and composition of issuance. The dependent variable is already a size-weighted average of all new debt issuances, issue-level fixed effects would not apply. The final sample assumes that a

newly issued debt maturity at the firm-quarter level, ensuring a normalized distribution, following Brockman et al. (2010). Huang et al. (2023) also use the logarithm of the weighted average maturity of outstanding loans when analyzing the impact of PRisk on the existing debt maturity structure.[16] The results remain consistent when using untransformed issue-size-weighted average new debt issuance maturity and firm-level political risks in the model (See Section 4.2.5.1).

Firm-level data are sourced from the Center for Research in Security Prices (CRSP) and Compustat, while credit ratings are obtained from the merged Compustat-Capital IQ database. Control variables are obtained from the WRDS Financial Ratio Suite database, covering key financial metrics. Firm patent data are sourced from WRDS U.S. Patents, which directly parses data from USPTO's XML files. Macroeconomic indicators, including market volatility (VIX) and the term spread (difference between the 10-year and 3-month Treasury rates), are sourced from the St. Louis Fed database. The national geopolitical risk index is sourced from macromicro.me.[17]

Additionally, the models incorporate the political sentiment measured by Hassan et al. (2019), which I scale by 100 and denote PSENT, as a control variable, following the emerging empirical literature that routinely includes it alongside the PRisk measure (e.g., Gad et al. (2024); Hasan and Jiang (2023); Huang et al. (2023)). A positive PSENT value indicates positive sentiment, whereas a negative PSENT denotes negative sentiment (Hassan et al., 2019). Yearly data on firm-level lobbying and campaign contributions are collected from opensecrets.org for election and midterm election years.[18] Information on industry favorability by political parties is sourced from visualcapitalist.com

firm's overall maturity decision matters, rather than the specific type of each issuance. Industry and firm fixed effects can help control for differences in debt issuance patterns across firms. Year-quarter fixed effects account for macroeconomic conditions that influence overall debt markets.

[16] The untransformed firm-level political risk measures by Hassan et al. (2019) have a right-skewed distribution (See Appendix 2), meaning a few firms experience extremely high PRisk values. Taking the logarithm helps normalize the distribution, making it more symmetric and reducing the influence of outliers.

[17] https://en.macromicro.me/series/20448/geopolitical-risk-index-united-states-since-1985

[18] The Federal Election Commission (FEC) compiles and publishes data on campaign finances, including money raised and spent by candidate committees, party committees, and political action committees (PACs), annually. OpenSecrets aggregates and analyzes this data yearly to provide insights into the political spending trends of firms for election and midterm election years. OpenSecrets tracks contributions from companies and industries to political candidates, parties, and committees, and lobbying expenditures. In this study, the dependent and control variables are

and opensecrets.org.[19] The gubernatorial wins by party in each state are obtained from github.com/Borderus/gubernatorial and ballotpedia.org.[20] Financial and utility firms are excluded from the analysis. To minimize the impact of extreme outliers, all continuous variables are winsorized at the 1st and 99th percentiles.

4. Empirical Findings

4.1. Descriptive Statistics

This section presents the summary statistics and Pearson's correlation analysis of all variables used in the study.[21] Table 1 provides each variable's total observations, mean, standard deviation, minimum, and maximum values. The average Log(Maturity) is 1.005, ranging from 0.003 to 1.699. Firm-level political risk has a mean of 137.16, with a minimum of 2.27 and a maximum of 1053.78. Untransformed new debt issuance maturity ranges from 3.01 to 30.20 years, with a mean of 11.85 years. Additional firm characteristics include an average firm size of 4.35, an R&D-to-sales ratio of 0.014, an interest coverage ratio of 8.87, a liability-to-asset ratio of 0.3424, a debt-to-EBITDA ratio of 3.55, a price-to-cash flow ratio of 11.78, a scaled (by 100) PSENT of 1.22, a capital ratio of 0.42, and an HH-index of 0.07, among others.

[Table 1 here]

Appendix 1 reports Pearson's correlation coefficients among the variables. The correlations among explanatory variables used in the same regression equation remain within acceptable limits,

converted to yearly frequency while using lobbying data as the main independent variable. See https://www.opensecrets.org/federal-lobbying/top-lobbying-firms.

[19] https://www.visualcapitalist.com/us-industry-favorability-democrats-republicans/
https://www.opensecrets.org/elections-overview/most-partisan-industries

[20] https://ballotpedia.org/State_executive_official_elections,_2020;
https://github.com/Borderus/us-election-results/blob/main/election_results_gubernatorial.csv

[21] Variables include the natural logarithm of debt issuance maturity and firm-level political risks, untransformed maturity and firm-level political risk, total assets, Tobin's Q ratio, debt-to-EBITDA ratio, Herfindahl–Hirschman (HH) index, debt-to-equity (D/E) ratio, cash flow-to-debt ratio, debt-to-invested capital ratio, liability-to-asset ratio, asset-to-liability ratio, return on asset (ROA), institutional ownership as a percentage of total shares outstanding, capital ratio, interest expense ratio (IER), interest coverage ratio, inventory turnover ratio, accounts payables turnover ratio, R&D-to-sales ratio, price-to-book value ratio, price-to-cash flow ratio, price-to-earnings ratio, the long-term debt-to-book value of equity ratio, current debt-to-total debt ratio, cash ratio, cashflow volatility (CFV), and short-term investment ratio.

indicating that multicollinearity is not a concern. The statistically significant negative relationship (coefficient = -0.4800, $p < 0.03$ (not reported)) between Log(Maturity) at quarter t and Log(PR) at quarter t-1 supports the hypothesis that Log(PR) reduces a firm's future Log(Maturity). PSENT in quarter t-1 and Log(Maturity) in quarter t show a positive relationship, similar to the extant literature (Hasan et al., 2022). Political sentiment influences firms' decisions to issue debt, as positive political sentiment signals a stable political environment and predictable regulatory and fiscal policies, which can reduce uncertainty and borrowing costs for firms. In such a context, firms feel more confident in long-term financial planning and debt issuance.

4.2. Main Empirical Results

4.2.1. Log(Maturity), Log(PR), R&D expenses, and interest expense ratio (IER)

To address potential endogeneity concerns, I use a fixed effects approach to control for time-invariant and entity-specific unobserved heterogeneity. This mitigates omitted variable bias, ensuring that estimated relationships are not driven by unmodeled cross-firm differences in Log(PR) and Log(Maturity). Standard errors are heteroskedasticity-robust and are clustered at firm/industry and year-quarter levels. A comprehensive set of control variables helps mitigate endogeneity concerns by capturing potential confounding factors. Furthermore, incorporating a one-quarter lead in the dependent variable alleviates reverse causality concerns to a significant extent (e.g., Callen and Fang (2015); Hasan et al. (2022); Kim (2019)). The natural logarithm of firm-level political risk, represented as Log(PR), lagged by one quarter, serves as the primary independent variable in the regression models to address endogeneity concerns. The other explanatory variables are also lagged by one-quarter. The primary model is as follows:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (1)$$

In Equation 1, $X_{it-1}^{(m)}$ denotes the m numbers of explanatory variables, lagged by one quarter, which includes effective tax rates, debt-to-EBITDA ratio, Herfindahl–Hirschman (HH) index, D/E ratio, cash flow-to-debt ratio, debt-to-invested capital ratio, liability-to-asset ratio, asset-to-liability ratio, capital ratio, interest expense ratio, interest coverage ratio, inventory turnover ratio, payables turnover ratio, price-to-cash flow ratio, price-to-earnings ratio, the long-term debt-to-book value of equity ratio, current debt-to-total debt ratio, cash ratio, short-term investment ratio, and firm-size. φ_t represents the year-quarter FE, λ_i represents the firm FE, and $\mathcal{E}_t$ is the error term.

The results, presented in Column 1 of Table 2, indicate that firm-level political risk Log(PR) from the previous quarter has a negative relationship with newly issued debt maturity, statistically significant at the 5% level. In terms of economic significance, a 1% increase in Log(PR) in time *t-1* is associated with a 0.3310% decline in Log(Maturity) and a 28.18% reduction in the untransformed debt maturity in time *t*.[22] For a 1-unit increase in the untransformed PRisk by Hassan et al. (2019), the untransformed maturity decreases by approximately 20.50%. For example, if the untransformed maturity of a loan is 10 years, for a 1-unit increase in PRisk, the reduction is 24.60 months (about 2.05 years).[23] This result reflects firms' lagged and cumulative responses to political uncertainty. When risk is elevated in the prior period, firms may have already begun adjusting their upcoming debt policies and often continue doing so as uncertainty persists. Others may delay action, gradually shortening

[22] The dependent variable here is the natural logarithm of newly issued debt maturity, so the interpretation involves a percentage change. When both the dependent and independent variables are in log form, the coefficient represents an elasticity**.** The relationship is multiplicative because of the log transformation, meaning the interpretation here refers to relative percentage changes in debt maturity. The coefficient (-0.331) represents the percentage change in the logarithm of maturity (Log(Maturity)) for a 1% increase in the natural logarithm of firm-level political risk. The firm-level political risk PRisk is a ratio of the weighted sum of political risk-related bigrams within a given transcript to the total number of bigrams in the transcript. Thus, PRisk represents the proportion of total bigrams devoted to political risk discussions within a firm's earnings call transcript. The weighting function in the numerator scales up the measure, making PRisk a large-value proportion rather than a simple percentage. As an independent variable, I use Log(PR). To interpret the regression results in terms of the untransformed number of years to maturity, back-transforming the results from the logarithmic scale using exponentiation is employed. To find the approximate decrease in the untransformed years to maturity, the following formula is used: Percentage change in untransformed maturity =[100×(exp(Coefficient)−1], where exp(Coefficient) denotes the exponential function of the coefficient. So, exp(−0.331)≈0.7182. So, the percentage change in untransformed maturity will be 100×(0.7182−1) ≈ -28.18%. This means that for a 1% increase in Log(PR), the untransformed maturity decreases by approximately 28.18%. So, if the untransformed maturity is 10 years, for example, it would drop by around $10 \times (28.18 \div 100) = 2.818\ years \approx 33.82\ months$.

[23] When PRisk increases by 1-unit (rather than 1% as in Log(PR)), for example, from PRisk=1 to PRisk=2, the change in Log(PR) is: ΔLog(PR) = ln(2)−ln(1)≈0.6931. A 1-unit increase in PRisk corresponds to an increase in Log(PR) of approximately 0.6931. This changes the coefficients of Log(PR):−0.331×0.6931≈−0.229. Now, to get the exact decrease in untransformed maturity: Percentage change in untransformed maturity = 100×(exp(-0.229)−1)= −20.50%. If the untransformed maturity is 10 years, the decrease in untransformed maturity will be: 10×(−20.50/100)= −2.05 years = −24.60 months

maturities in response to sustained risk. Given that new debt maturity decisions require planning, board approval, and lender coordination, responses naturally trail the emergence of risk. Consistent with this, a significant positive relationship between Log(Maturity) and PSENT (positive political sentiment) at the 1% level suggests that optimism about the political environment encourages firms to extend maturities of new debt issuances in the next quarter to support long-term investments.

For additional robustness, Column 2 of Table 2 includes $Industry \times YearQuarter$ fixed effects to control for industry-wide seasonal shocks while examining the relationship between Log(Maturity) and Log(PR), which remains statistically significant and negative (Coefficient= -0.3318, t-value= -1.75). PSENT and Log(Maturity) show a significant and positive relationship at a 10% level. Specifically, a 1% increase in Log(PR) leads to an approximate 0.3318% decrease in Log(Maturity) and a 28.21% decrease in the untransformed maturity. Thus, a one-unit increase in PRisk leads to a 20.49% decrease in untransformed maturity. If the untransformed maturity of a loan is 10 years, it decreases by 24.58 months. These findings suggest that firms facing heightened political risk adopt more flexible financial strategies, avoiding long-term debt issuance to mitigate exposure to sudden regulatory shifts and economic uncertainty. By prioritizing shorter debt maturities, these firms enhance their ability to adjust to evolving political and economic conditions.

To ensure further robustness, I use the interest expense ratio (IER) as a proxy for new debt maturity as well as tax sensitivity, calculated as total interest expense divided by total existing debt. A higher IER indicates greater borrowing costs of existing debt, leading firms to favor shorter-term debt issuance in subsequent periods (e.g., Bharath et al. (2007); Graham et al. (2008); Hasan et al. (2014)).[24] Political risk raises the cost of long-term debt due to supply-side pressure, incentivizing firms to shift toward short-term debt. Extended debt maturity allows lenders to charge higher interest rates,

[24] Short-term debts mitigate managerial risk-seeking behavior. Thus, banks price loans more rationally, offering lower interest rates to firms with shorter debt maturities in their capital structure (Bharath et al., 2008; Graham et al., 2008; Hasan et al., 2014).

generating greater income over the loan's duration to offset increased borrowing risks (Hempel, 2024). As a result, firms shift toward short-term debt to avoid locking in high interest rates for an extended period.

Using IER as the dependent variable in the Equation 1 framework, the results in Table 2, Column 3 show that a 1% increase in Log(PR) leads to a 0.5843-unit increase in IER, statistically significant at the 5% level. The increase in IER primarily arises through refinancing and repricing channels: political risk prompts lenders to demand higher risk premiums, raising interest rates on outstanding debt—especially for firms with floating-rate obligations or those rolling over longer-term liabilities. These firms reduce long-term new debt issuance because of the higher cost of servicing existing debt. Higher refinancing risks prompt them to issue shorter-term debt for greater flexibility in adjusting their financing as conditions change. This aligns with the findings of Gad et al. (2024) showing that political risk at the lender level transmits to borrowers via lending relationships. Additionally, political risk increases uncertainty about future tax policy, encouraging firms to opt for shorter-term debt to preserve flexibility and reassess their capital structure as conditions stabilize.

In Column 4, I include an interaction term between the interest expense ratio (IER) and Log(PR) to examine their combined impact on Log(Maturity). The interaction term is statistically significant and negatively associated with Log(Maturity), indicating that the effect of IER on new debt maturity is intensified when political risk is higher (coefficient= -0.197, t-value= -1.75). Additionally, Log(PR) and IER exhibit a negative relationship with Log(Maturity), reinforcing the idea that higher political risk and greater interest expenses contribute to shorter new debt maturities. Future tax policy uncertainties make it difficult for firms to rely on the tax shield provided by long-term debt. Firms with high existing IERs, heavily dependent on tax deductions, are especially vulnerable to tax policy changes. Consequently, these firms significantly reduce the issuance of new long-term debt.

To examine the impact of political risk on Log(Maturity), this study incorporates the R&D-to-sales ratio as an additional proxy. Hameed et al. (2021) highlight that long-term debt supports sustained R&D investment and innovation. Accordingly, greater reliance on short-term debt corresponds with lower R&D spending. Using the R&D-to-sales ratio as the dependent variable in Equation 1, the results in Column 5 of Table 2 show that firms facing heightened political risk reduce R&D investment, due to uncertainty surrounding returns in volatile environments. Specifically, a 1% increase in Log(PR) decreases the R&D-to-sales ratio by 0.172 units, statistically significant at the 5% level. This suggests that firms curtail long-term growth strategies amid higher political risk. The resulting decline in R&D slows innovation and reduces future growth opportunities, ultimately diminishing the need for long-term financing and reinforcing a shift toward shorter debt maturities.

[Table 2 here]

4.2.2. Addressing Endogeneity

4.2.2.1. Robustness check: Bartik instrument

To further validate the robustness of the results, I employ the Bartik instrument (Goldsmith-Pinkham, 2020) methodology. I use the Geopolitical Risk (GPR) index, which is a national-level measure that does not vary across firms or industries in each quarter. The Bartik instrument uses firm-level variation by interacting the national GPR index with an industry-level measure of exposure to geopolitical risk. This introduces industry-specific variation based on each industry's exposure to geopolitical risk, denoted as, $\overline{\beta_J}$. To calculate the industry-level exposure, I first estimate how firms in each industry respond to past GPR shocks, using the following model with firm-fixed effects and industry-time fixed effects (γ_{jt}): [25]

[25] Industries differ in their exposure to global political risks (e.g., defense vs. retail). To remove confounding industry-wide trends, I include industry-time fixed effects. β_i estimates reflect how firms within an industry respond to GPR relative to their industry peers, rather than picking up industry-wide effects.

$$Log(Maturity)_{it} = \alpha_0 + \beta_i GPR_{t-1} + \sum_m \beta_m X_{it-1}^{(m)} + \lambda_i + \gamma_{jt} + \varepsilon_t \quad (2)$$

Here, β_i represents the firm-specific sensitivity to GPR. This is estimated from within-industry variations, as firms within an industry have heterogeneous responses to GPR due to varying sizes, leverage levels, capitalizations, etc. I use term spread (10-year minus 3-month) and market VIX as controls to mitigate concerns that GPR affects new debt maturity through other channels. I cluster standard errors at firm and industry-time levels to account for serial correlation within firms over time and industry-wide shocks. The industry-level exposure to geopolitical risk, β_j is then computed by averaging the firm-level sensitivities within each industry:

$$\overline{\beta_j} = \frac{1}{N_j} \sum_{i \in j} \widehat{\beta_i}$$

where N_j is the number of firms in industry j. After calculating the industry-level exposure, I compute the Bartik instrument at the firm level as: $Z_{it} = \overline{\beta_j} \times GPR_t$. Since GPR_t is constant across firms within a given quarter, Z_{it} varies only due to industry differences. Firms with higher industry-level exposure to GPR will have a stronger instrument.[26] Thus, the Bartik instrument exploits cross-industry variation in geopolitical risk sensitivity rather than relying solely on national-level GPR. By constructing an industry-level measure of geopolitical risk exposure, I ensure that firm-level political risk varies due to exogenous industry-wide shifts rather than firm-specific financial conditions.

Next, I use a two-stage least squares (2SLS) approach to estimate the causal effect of GPR on Log(Maturity). In the first stage, I regress firm-level exposure to political risk on the instrument, including firm-fixed effects and industry-time fixed effects (γ_{jt}) to absorb industry-wide factors that change over time:

[26] This identification strategy assumes that while all firms in an industry share the same industry-level exposure $\overline{\beta_j}$, they still exhibit idiosyncratic variations in firm-level political risk, allowing for firm-level heterogeneity in responses.

$$\widehat{Log(PR)}_{it} = \alpha_0 + \beta_1 Z_{it} + \sum_m \beta_m X_{it}^{(m)} + \gamma_{jt} + \lambda_i + \varepsilon_t \quad (3)$$

The results in Column 1 of Table 3 show that the Bartik coefficient (β_1= 0.1680, t = 3.09) suggests a statistically significant relationship between the instrument and Log(PR). The F-statistic (10.55) is above the commonly recommended threshold of 10. This confirms that the instrument is valid and not irrelevant. In the second stage, I use the predicted Log(PR) from the first stage to estimate its impact on new debt maturity:

$$Log(Maturity)_{it} = \alpha_0 + \theta_1 \widehat{Log(PR)}_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \gamma_{jt} + \lambda_i + \varepsilon_t \quad (4)$$

Column 2 of Table 3 shows that the predicted Log(PR) is negative and statistically significant at the 1% level in explaining Log(Maturity) (θ_1= -0.3006, t-value= -2.56). A 1% increase in Log(PR) corresponds to an approximate 0.3006% decrease in Log(Maturity) and a 25.92% decrease in untransformed maturity. Economically, a 1-unit increase in PRisk leads to an 18.90% decrease in untransformed maturity. If untransformed maturity is 10 years for a loan, the decrease would be 22.70 months. This suggests that higher political risk, as captured by the predicted Log(PR), leads to shorter newly issued debt maturities. An over-identification test further confirms that the instrument does not systematically predict financing constraints outside the political risk channel. Finally, the Anderson canonical correlation LM statistic is 10.57 with a p-value of 0.002, which rejects the null hypothesis of under-identification at the 1% significance level. This confirms that the equation is properly identified and the results are valid.

4.2.2.2. Propensity score matching (PSM) test

I apply Propensity Score Matching (PSM) to further address potential endogeneity by matching treated firms with control firms. Firms with untransformed political risk exposure above the median are assigned to the treatment group (1), while those below the median (around 62.12) are in the control group (0). Using all control variables from the baseline regression (Equation 1), I estimate the propensity score with a logit model. The nearest neighbor matching with a 0.01 caliper ensures that treated and control firms are similar in propensity scores, preventing poor matches. After matching, I check the balance between the groups using balance tests. Following Rubin (2001), in untabulated results, I confirm that B = 4.1 (below 25) and R = 0.69 (between 0.5 and 2), indicating a good balance. The statistically significant and negative coefficient in Column 3 of Table 3 (-0.4010, t-value= -2.11) indicates that firms in the treatment group tend to have lower new debt issuance maturities than firms in the control group. Specifically, on average, the Log(Maturity) of treated firms is lower by about 0.401% compared to firms in the control group.

[Table 3 here]

4.2.3. Main Mechanisms

4.2.3.1. Path analysis: Examining the mediating role of cash flow volatility

This study employs path analysis to investigate whether cash flow volatility mediates the relationship between political risk and debt maturity. Cash flow volatility (CFV) is measured as the standard deviation of cash flow over a rolling 10-quarter window, capturing fluctuations in firm cash flow dynamics over time. High CFV increases risk by signaling greater uncertainty in cash flow, making it more difficult for firms to commit to long-term debt (Keefe & Yaghoubi, 2016). Thus, CFV acts as a mediator, amplifying the negative relationship between political risk and new debt maturity, as volatility induced by political risk further encourages firms to shorten their debt maturities. To formally test this mediation effect, I first examine how political risk affects CFV as follows:

$$CFV_{it} = \alpha + \beta_2 \, Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (5)$$

Next, I assess the impact of CFV on Log(Maturity) while controlling Log(PR):

$$Log(Maturity)_{it} = \alpha + \beta_3 \, CFV_{it-1} + \beta_4 \, Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (6)$$

Panel A Table 4, Column 1 presents the results for Equation (4), indicating that a 1% increase in Log(PR) leads to a 2.2298-unit (β_2) increase in CFV, significant at a 1% level. This aligns with the result of Hasan et al. (2022) who find that firm-level political risks increase cash holdings and cash flow volatility increases with firm cash holdings. Panel A Column 2 reports the results for Equation (5), showing that a 1-unit increase in CFV and a 1% increase in Log(PR) reduce Log(Maturity) by 0.16% (β_3) and 0.32% (β_4) respectively.[27] Specifically, the reduction in Log(Maturity) attributable to Log(PR) decreases from 0.3310% (Column 1 of Table 2) to 0.3207% (Column 2 Table 4) after accounting for cash flow volatility, indicating that a significant portion of the effect is transmitted through increased financial uncertainty.

To determine whether the mediation effect is statistically significant, I conduct a Sobel test (Preacher & Hayes, 2008) using β_2 and standard error of β_2 from Equation 4, and β_3 and standard error of β_3 from Equation 5. The Sobel test statistic is calculated as follows:

$$Z = \frac{\beta_2 \times \beta_3}{\sqrt{\left(\beta_3^2 \times SE_{\beta_2}^2\right) + \left(\beta_2^2 \times SE_{\beta_3}^2\right)}} = \frac{(2.2298) \times (-0.167)}{\sqrt{(0.167^2 \times 0.3930^2) + (2.2298^2 \times 0.0266^2)}} = \frac{-0.3723}{0.088} = -4.2095$$

For a two-tailed test at the 5% significance level, the critical values from the standard normal distribution are approximately ±1.96. The Sobel test yields a Z-value of -4.2095, which exceeds the critical value, confirming that the mediation effect is statistically significant. Moreover, the coefficient β4 from Equation 5 is 0.3207 after including the mediator CFV, which is smaller than the total effect β1=0.3301 (0.33% reduction in Log(Maturity)) from Equation 1. This difference captures the indirect impact — how much of the effect of political risk on new debt maturity is transmitted via CFV. This significant reduction suggests partial mediation, meaning that while political risk directly influences debt maturity, a significant portion of its effect operates through cash flow volatility. By testing this

[27] Since CFV is expressed in decimal form, while Log(PR) and Log(Maturity) are in logarithmic form, the interpretation of a 1-unit change in CFV reflects a ($\beta_3 \times 100$) percentage change in Log(Maturity). The coefficient of -0.32 (β_4) for Log(PR) suggests that a 1% increase in PR is associated with a 0.32% decrease in Log(Maturity), following the interpretation of log-log models, where coefficients represent elasticities.

indirect pathway, the analysis proves that firm-level political risks influence new debt maturity decisions through direct channels and by increasing CFV, discouraging long-term debt commitments.

4.2.3.2. Moderating effect of credit ratings on Log(Maturity) and Log(PR) relationship

To explore the relationship between the S&P credit ratings, firm-level political risk, and the maturity of newly issued corporate debt, I examine the interaction between Log(PR) and the S&P Quality Ranking. The S&P Quality Ranking categorizes firms into eight distinct groups and measures a firm's overall creditworthiness. These categories are assigned ranks from 1 to 8, where higher scores correspond to higher levels of creditworthiness. These ranks are then analyzed in conjunction with Log(PR) to assess their combined effect on Log(Maturity). I use the following equation:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it-1} \times S\&PQualityRank_{it-1} + \beta_2 Log(PR)_{it-1} + \beta_3 S\&PQualityRank_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \quad (7)$$

In Panel B Column 1 of Table 4, the interaction between Log(PR) and S&PQualityRank exhibits a statistically significant and positive relationship with Log(Maturity), with a coefficient of 0.087 (t-value = 1.77), suggesting as credit quality increases, the negative impact of political risk on debt maturity is mitigated. The individual effect of S&PQualityRank is positive and statistically significant, and Log(PR) shows a statistically significant and negative effect on new debt issuance maturity, both at the 5% significance level. These results imply that higher credit ratings moderate the negative impact of political risk on the maturity of new debt issuance. Thus, firms with higher credit ratings tend to experience a lesser reduction in new debt issuance maturity when facing political risks.

I also perform a subsample analysis by dividing the sample into two groups based on credit ratings: firms with an S&P Quality Rank of 3 or lower are classified as having poor credit ratings, while firms with an S&P Quality Rank of 6 or higher are classified as having good credit ratings. Panel B, Column 2 of Table 4 presents the results for firms with poor credit ratings, where a 1% increase in

Log(PR) leads to a statistically significant 2.14% decrease in Log(Maturity) at the 1% significance level. In contrast, Column 3 shows that for firms with good credit ratings, Log(Maturity) increases by 0.0602%. Aligning with the credit rationing theory by Stiglitz and Weiss (1981) and Diamond (1991), these findings suggest that firms with poorer credit ratings, which typically face greater financial constraints, tend to shorten their debt maturities as a risk management strategy in response to higher political risk.

[Table 4 here]

4.2.3.3. Does near-term patent maturity expiration matter?

This section examines whether patents expiring within three years of a given quarter influence the relationship between firm-level political risk and the maturity of newly issued debt—captured by Log(PR) and Log(Maturity). Specifically, if a firm has multiple patents, I identify whether at least one patent is set to expire within three years of each quarter and introduce a binary variable, 3yrPatentMaturity, which equals 1 if such a patent exists and 0 otherwise. The objective is to determine whether the impact of political risk on debt maturity strengthens or weakens depending on patent expiration timing. The following model is estimated:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it-1} \times 3yrPatentMaturity_{it-1} + \beta_2 Log(PR)_{it-1} + \beta_3 3yrPatentMaturity_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \quad (8)$$

Here, λ_i represents industry-fixed effects, controlling for systematic differences in patent intensity, debt structures, and business models across industries. This is particularly important since patent-heavy industries (e.g., pharmaceuticals, and technology) inherently exhibit different debt maturity structures than industries with lower patent reliance (e.g., retail).

The interaction term (β1) captures whether the presence of near-term patent expirations alters the effect of political risk on debt maturity. Panel A, Table 5, Column 1 shows that the interaction term (coefficient= -0.3288, t-value= -2.67) is negative and statistically significant at the 1% level. This indicates that firms with at least one patent expiring within three years have a pronounced reduction in new debt maturity when facing higher political risk. Furthermore, the standalone 3yrPatentMaturity dummy is negative and significant, suggesting that firms with impending patent expirations issue shorter-term debt, due to cash flow uncertainty or strategic adjustments in anticipation of patent expiration, aligning with Hao and Wu (2024). As expected, Log(PR) remains negative and significant.

To test for robustness, I introduce an additional dummy, 5yrPatentMaturity, which is set to 1 if a firm holds a patent maturing within five years, and 0 otherwise. The same model specification as in Equation 8 is applied. The results, presented in Panel A Table 5 Column 2, show that the interaction term (coefficient=-0.1184, t-value=-2.14), the standalone 5yrPatentMaturity dummy, and Log(PR) are all statistically significant and negative. This further validates the finding that firms with patents expiring in the near term tend to shorten new debt maturity when facing higher political risks.

4.2.3.4. Does firm size matter?

I explore the impact of firm size on debt maturity (Log(Maturity)) within the context of high political risk. To analyze this, I interact Log(PR) with firm size and examine both as standalone. I use the following model, which includes both firm and year-quarter fixed effects:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it-1} \times size_{it-1} + \beta_2 Log(PR)_{it-1} + \beta_3 size_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (9)$$

The results in Panel B, Column 1 of Table 5, show that the interaction term is statistically significant and positive at the 1% level (coefficient = 0.1137, t-value = 2.68). The standalone firm-size variable is also statistically significant and positive at the 1% level, while Log(PR) remains statistically significant and negative. These findings suggest that larger firms, typically more diversified and having better access to capital markets, are better positioned to issue long-term debt during high political risks. This aligns with Chi and Su (2017), who show that as firms invest more into growth opportunities, their CFV decreases. Larger firms benefit from the ability to geographically diversify operations and engage in hedging strategies that mitigate the impact of political instability. Their ability to hedge against or absorb political shocks allows them to maintain stable cash flows and preserve creditworthiness, enabling them to issue long-term debt despite the challenges posed by political risk.

To ensure robustness, I introduce a dummy variable, SizeD, which takes the value of 1 if a firm's size in each quarter is below the 50th percentile (around 4.127) of the overall distribution, 0 otherwise. Building on the framework used in Equation 9, I interact SizeD with Log(PR). The interaction term is statistically negatively related to Log(Maturity) (coefficient = -0.3227, t-value = -4.93) in Panel B, Column 2. The standalone SizeD and Log(Maturity) are statistically significant and negative. These results suggest that smaller firms, more vulnerable to political risk, prefer shorter new debt maturities to mitigate the long-term costs and uncertainties associated with financing in politically unstable periods, aligning with Saba (2025) and Kakhbod et al. (2025).

[Table 5 here]

4.2.4. Impact of Political Ties

4.2.4.1. Corporate lobbying and campaign contributions

Firms exposed to high political risk tend to engage more actively in corporate lobbying and campaign contributions. Lobbying and campaign contribution data are collected annually, with emphasis on presidential elections and midterm election years. Therefore, all dependent and control variables are adjusted to an annual frequency. In the sample of 1,353 observations, nearly all firms allocate funds to both the Republican and Democratic parties before the mid-term and presidential elections, though the distribution varies. I examine whether political lobbying influences firms' ability to secure longer-term new debt financing.

Political alignment and new debt maturity: First, I assess whether firms that contribute more to the federal ruling party—specifically, contributing more to the Republican Party during periods of Republican federal control—experience different new debt maturity outcomes under political certainty. The key question is whether firms that strategically align their lobbying efforts benefit from longer debt maturities than those that hedge by distributing contributions more evenly or favoring the non-ruling party. I introduce a dummy variable, *Alignment*, which takes a value of 1 if the federal ruling party in year t is Republican and the firm allocates a higher proportion of contributions/lobbying funds to the Republican Party than to the Democratic Party each year; otherwise, it is 0. I estimate the following model with firm (λ_i) and year-fixed effects (φ_t):

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times Alignment_{it} + \beta_2 Log(PR)_{it-1} + \beta_3 Alignment_{it} + \beta_4 Log(PR)_{it} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \mathcal{E}_t \qquad (10)$$

Table 6, Column 1, reports that the interaction term between Log(PR) and Alignment dummy is statistically significant and positive at the 10% level (β_1=0.2067, t-value = 2.18), suggesting that alignment moderates the effect of political risk on new debt maturity.[28] The standalone Alignment dummy is also statistically significant and positive at 5%, indicating that firms strategically aligning with the ruling party tend to issue longer-term debt. In Column 2, where Log(PR) is excluded, the Alignment dummy remains positively and significantly associated with Log(Maturity). Specifically, firms that contribute more to the ruling party experience an increase in Log(Maturity) by 0.23%,

[28] Since the ruling party can change between periods, the firm's alignment strategy in year t−1 may not correspond to the same political risk conditions in year t. Using the current Log(PR) in the interaction term ensures that political risk and alignment are measured within the same period, avoiding inconsistencies caused by party transitions. Including the lagged Log(PR) separately helps capture the effect of past political uncertainty on new debt maturity decisions, which is relevant because firms often make financing decisions based on past risk assessments. Thus, the interaction term captures how political risk affects firms differently based on their current alignment, while the lagged Log(PR) term captures the persistent effects of past political uncertainty. The Alignment dummy is included as a standalone variable as firms change their support based on their preferences. Using the lagged Log(PR) as a standalone term captures the persistent effect of political risk on new debt maturity.

statistically significant at the 5% level. Thus, political alignment through lobbying can reduce the impact of political uncertainty and facilitate access to longer-term financing.

Next, I examine whether bipartisan lobbying is associated with improved access to long-term debt amid high political uncertainty. Since all firms in the sample contribute to both major parties, I construct a Bipartisanship Index (BI) to quantify the balance of their contributions:

$$\text{BI}= \left(1 - \frac{|\text{Republican contributions} - \text{Democrat contributions}|}{|\text{Republican contributions} + \text{Democrat contributions}|}\right)$$

A BI value close to 1 indicates a balanced (bipartisan) contribution strategy, whereas a value near 0 signifies a strong preference for one party (partisan). To analyze the impact of bipartisanship on new debt maturity, I introduce a dummy variable, *Bipartisanship*, which classifies firms based on the median of the BI distribution. Firms with BI ≥ median are assigned 1 (bipartisan), while those with BI < median are assigned 0 (partisan). This method ensures an even distribution of observations. The following model for Log(Maturity) including firm and year fixed effects is estimated:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times Bipartisanship_{it} + \beta_2 Log(PR)_{it-1} + \beta_3 Bipartisanship_{it} + \beta_4 Log(PR)_{it} + \textstyle\sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (11)$$

Table 6 Column 3 shows the interaction term between Log(PR) and Bipartisanship dummy is significant and positively related to Log(Maturity) (β_1= 0.0924, t-value= 1.81). This suggests that the effect of political risk exposure on Log(Maturity) is influenced by bipartisan lobbying. Notably, the standalone Bipartisanship dummy remains significantly and positively related to Log(Maturity), reinforcing the notion that firms adopting a balanced political contribution strategy tend to secure longer-term debt. Column 4 further confirms that even without controlling Log(PR), the Bipartisanship dummy remains positively and significantly associated with Log(Maturity). This highlights the benefits of bipartisan lobbying, where firms maintaining political neutrality through balanced contributions can mitigate the impact of political uncertainty and access longer-term debt.

As a robustness check, I examine whether the combined effect of political risk and total political contributions influences new debt maturity. I introduce Log(TotalContributions), the natural logarithm of a firm's total monetary contributions to both major parties (Republican and Democrat). I interact Log(TotalContributions) with Log(PR) to assess their joint impact on Log(Maturity):

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times Log(TotalContributions)_{it} + \beta_2 Log(PR)_{it-1} + \beta_3 Log(TotalContributions)_{it} + \beta_4 Log(PR)_{it} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (12)$$

Table 6 Column 5 shows that the interaction term is positive and statistically significant, though its effect size is relatively small—a 0.0015% increase in Log(Maturity), with a t-value of 2.07). The standalone Log(TotalContributions) is positively associated with Log(Maturity), reaching statistical significance at 10%. This suggests that firms making larger political contributions can secure long-term debt, even in political uncertainty, aligning with Hill et al. (2013) and Hill et al. (2014), who show that firms with stronger political connections, established through lobbying efforts, lower the need for cash reserves, and have increased excess returns and firm value. [29]

[Table 6 here]

4.2.4.2. Log(PR) and Log(Maturity) across Republican and Democrat-favored industries

I assess whether industries historically aligned with the party in power experience different new debt maturity outcomes in response to political risk. I classify industries based on their political leanings. Five industries generally favored by Democrats—technology, airlines, wireless carriers, entertainment, and wholesalers—are compared with five industries typically supported by Republicans—oil and gas, mining, manufacturing, automotive, and food manufacturing.[30] To quantify

[29] While lobbying serves as a strategic tool to mitigate exposure to political uncertainty, the positive but modest magnitude of the interaction effects (Columns 1, 3, and 6) suggests that it does not fully insulate firms from the adverse implications of higher political risk. Firms may still prefer shorter debt maturities under heightened uncertainty, viewing lobbying as a partial hedge rather than a definitive shield.

[30] Industry's favorability is firm-specific and does not change over time. Political favorability of an entire industry tends to shift slowly over time. In many cases, industry alignments with political parties are generally stable, as industries tend to have long-term relationships with certain political parties due to shared interests, regulatory preferences, and market dynamics.

industry alignment, I introduce a dummy, IndustryAlignment, which equals 1 if a firm's industry's political favorability matches the federal ruling party in quarter t, 0 otherwise. I use the following model, incorporating industry (λ_i) and year-quarter (φ_t) fixed effects- [31]

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times IndustryAlignment_{it} + \beta_2 Log(PR)_{it-1} + \beta_3 Log(PR)_{it} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \quad (13)$$

The results are shown in Panel A Column 1 of Table 7. The interaction between Log(PR) and IndustryAlignment is positive and statistically significant at a 1% level ($\beta_1 = 0.0757$, t-value= 3.8). $Log(PR)_{it}$ captures the immediate, short-term response of firms to political risk, and $Log(PR)_{it-1}$ captures the persistent, long-term effects of political risk on firms' debt maturity decisions.[32] Both concurrent and lagged Log(PR) have statistically significant and negative coefficients, but the smaller magnitude of Log(PR) in time *t* suggests that firms react initially but not as strongly as they do over time. Firms make both short-term and long-term financing decisions, so political risk matters both immediately (e.g., a firm might adjust bond issuance today due to rising uncertainty) and persistently. Overall, the results suggest that firms operating in industries aligned with the federal ruling party benefit from longer new debt maturities during periods of heightened political risk.

Placebo test: To ensure the robustness and rule out any spurious effects, I design a placebo test. I introduce a dummy variable, PlaceboIndustryAlignment, which is randomly generated with values of 0 and 1 for the industry's political favorability and ruling party alignment. I interact this dummy with Log(PR). The model is specified as follows, with industry and year-quarter fixed effects:

[31] Typically, when using interaction terms, both variables should be on the same time scale to ensure interpretability. Since the IndustryAlignment dummy is contemporaneous, I use the contemporaneous (unlagged) Log(PR) in the interaction term rather than the lagged version. Using a lagged Log(PR) in the interaction would mean that the paper tests how past political risk interacts with current industry alignment, which is not conceptually aligned with the hypothesis. Using the lagged Log(PR) as a standalone term captures the persistent effect of political risk on debt maturity.

[32] The Variance Inflation Factor (VIF) of both concurrent and lagged Log(PR) is below 10. Thus, multicollinearity is not a problem in this model.

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times PlaceboIndustryAlignment_{it} + \beta_2 Log(PR)_{it} + \beta_3 Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \quad (14)$$

Panel A Column 2 in Table 7 shows that the coefficient for the interaction term between Log(PR) and PlaceboIndustryAlignment is not statistically significant (p-value > 0.05), indicating that this placebo variable has no meaningful relationship with Log(Maturity). The concurrent and lagged Log(PR) standalone are negative and statistically significant. Thus, the random assignment of industry favorability and ruling party alignment does not influence Log(Maturity) and supports the validity of the main test in avoiding false positives.

Subsample analyses for Republican and Democrat industries: To examine the relationship between Log(Maturity) and Log(PR) across industries with different political affiliations irrespective of the ruling party, I conduct subsample analyses by dividing the sample into five Democratic and five Republican industry firms. Using Equation 1, I estimate the effect separately for each group. Column 3 of Table 7 indicates that for Republican industry firms, a 1% increase in Log(PR) is associated with a 0.3754% decrease in Log(Maturity), statistically significant at the 1% level. Similarly, for Democratic industry firms (Column 4), a 1% increase in Log(PR) results in a 0.6577% decrease in Log(Maturity), statistically significant at the 5% level. Thus, for both groups, greater political risk is linked to shorter debt maturities. However, the effect appears stronger for Democratic industries, implying that firms in these sectors are more sensitive to political uncertainty when determining their new debt structures.

A mismatch between industry favorability by party and the federal ruling party: I examine how firms operating in industries not politically aligned with the federal ruling party behave in terms of Log(Maturity) amid political uncertainty. I introduce a dummy “HighRisk” which is 1 if the ruling party is Democrat and the firms’ industry is Republican favored, 0 otherwise. The model is as follows:

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times HighRisk_{it} + \beta_2 Log(PR)_{it-1} + \beta_3 Log(PR)_{it} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \quad (15)$$

The results are presented in Column 5 of Table 7. The interaction term Log(PR)×HighRisk is negatively related to Log(Maturity) at a 1% significance level (β_1= -0.1384, t-value= -3.68). The concurrent and lagged Log(PR) are also statistically significant and negative. Firms in Republican-favored industries face a higher risk of shorter new debt issuance maturities when Democrats are in power. The results highlight the adverse impact of political misalignment on firms' ability to secure long-term financing. Although unreported, the results hold for firms in Democrat-favored industries' firms when Republicans are in power. [33]

[Table 7 here]

4.2.4.3. Log(PR) and Log(Maturity) across Republican and Democrat States

I examine how the political alignment of state governors with the ruling party influences the Log(Maturity) of firms headquartered in those states during political uncertainty, using gubernatorial election histories.[34] I introduce a dummy variable, StateAlignment, which equals 1 if a headquarters state governor's political affiliation matches the ruling party in quarter t, 0 otherwise. The analysis follows the same empirical framework as Equation 13, replacing IndustryAlignment with StateAlignment, and using firm (λ_i) and time (φ_t) FE.[35] The results, presented in Column 1 of Table 8, indicate that the interaction between Log(PR) and StateAlignment is positive and statistically significant at the 10% level ($\beta_1 = 0.0331$, t-value= 1.71). The concurrent and lagged Log(PR) are

[33] The heterogeneity in firms' responses to political risk—via lobbying or state/industry level alignment with ruling parties—raises the question of whether these effects reflect strategic behavior or structural positioning. Firms with lobbying efforts or political alignment benefit from predictable regulations or preferential treatment, easing borrowing constraints during uncertainty. While some advantages are structural (e.g., industry/state level ties, size), the dynamic nature of political engagement, like shifting contributions to align with ruling parties, suggests a strategic element. Politically agile firms actively mitigate new debt maturity-reducing effects of political risk through targeted engagement, rather than relying solely on structural benefits.

[34] Gubernatorial elections offer valuable insights, as state policies (e.g., taxation, regulations) directly impact firms. These elections are not confined to midterm or presidential years, with most states holding them in even-numbered years. For example, 11 states held gubernatorial elections in 2024, while 36 states are scheduled for 2026. Although most governors serve four-year terms, New Hampshire and Vermont hold elections every two years. I exclude observations where the governor is independent. From 2002 to 2022, nearly all U.S. states had Republican or Democratic governors, with only a few exceptions. For instance, Lincoln Chafee (Rhode Island, 2011–2015) was elected as an independent before joining the Democratic Party, and Bill Walker (Alaska, 2014–2018) governed as an independent.

[35] I do not include StateAlignment as a standalone variable as it will be absorbed by firm FE as it stays the same for 16 quarters.

statistically significant and negative. Similar to industry-level alignment, the magnitude of $Log(PR)_t$ is smaller than that of $Log(PR)_{t-1}$, confirming that political uncertainty has a more pronounced effect on new debt maturity over time rather than just in the immediate period. Overall, the results suggest that firms headquartered in politically aligned states benefit from longer debt maturities during periods of heightened political risk.

Placebo test: I conduct a placebo test introducing a randomly generated dummy, PlaceboStateAlignment, which takes values of 0 or 1 without any real economic or political meaning. I interact this dummy with Log(PR) to create a random interaction term between a fictitious state governor's party affiliation and the firm-level political risk in quarter *t*. The model follows the same structure as Equation 14, replacing PlaceboIndustryAlignemnt. Column 2 of Table 8 indicates that the coefficient for the interaction term is not statistically significant (p-value > 0.05). Thus, the randomly assigned PlaceboStateAlignment has no meaningful relationship with Log(Maturity). This validates the main results test by confirming that random state affiliation does not drive debt maturity outcomes.

Subsample analyses for firms in States with Republican and Democrat Governors: I conduct a subsample analysis to investigate the relationship between Log(Maturity) and Log(PR) for firms headquartered in states with governors of differing political affiliations. The sample is divided into two groups: firms in states governed by Republicans and firms in states governed by Democrats, regardless of the ruling party at the federal level. Using Equation 1, I estimate the effect separately for each group. The results, presented in Column 3 of Table 8, reveal that for firms headquartered in Republican states, a 1% increase in Log(PR) is associated with a 0.4283% decrease in Log(Maturity), statistically significant at the 5% level. For firms in Democratic states (Column 4), a 1% increase in Log(PR) leads to a 0.4040% decrease in Log(Maturity), statistically significant at the 1% level. Thus, increased political risk is linked to shorter new debt maturities for firms regardless of their headquarters location.

Governor-party affiliation mismatch with federal ruling party: I explore how firms headquartered in states with governors not aligning politically with the federal ruling party behave in terms of Log(Maturity) during high political uncertainty. I introduce a dummy variable “HighRisk2” which is 1 if the federal ruling party is Democrat and the state Governor is Republican, 0 otherwise. Using the same model structure as Equation 15 and replacing the HighRisk dummy, the results are presented in Column 5 of Table 8. The interaction term is negatively associated with Log(Maturity) and statistically significant at the 5% level (β_1 = -0.0254, t-value = -2.29). This suggests that firms headquartered in states with Republican governors issue shorter-term debt when Democrats hold federal power. The result holds—though not reported—for firms based in states with Democratic governors when Republicans control the federal government. Political misalignment between a firm's home-state leadership and the federal administration introduces additional uncertainty, which in turn affects corporate financing decisions.

[Table 8 here]

4.2.4.4. Does the debt maturity cluster right before the presidential elections?

To assess whether firms cluster their new debt issuance maturities in the period leading up to presidential elections, I focus on new debt issuances during the first three quarters (Q1-Q3) of election years and examine patterns in firms' debt maturity decisions. I introduce the ElectionQuarters dummy, which equals 1 if the issuance occurs in Q1-Q3 of a presidential election year, 0 otherwise. I use two analytical approaches. First, I utilize a panel fixed-effects model to evaluate whether firms shorten their debt maturities in response to heightened political risk during election quarters, controlling for year-quarter and firm-level fixed effects to account for unobserved heterogeneity[36]:

[36] ElectionQuarters dummy captures whether the new debt issuance occurs in Q1-Q3 of a presidential election year. Since the firm’s decision to issue short-term or long-term new debt happens within that quarter, I use the concurrent value, rather than a lag.

$$Log(Maturity)_{it} = \alpha + \beta_1 Log(PR)_{it} \times ElectionQuarters_t + \beta_2 Log(PR)_{it-1} + \beta_3 Log(PR)_{it} + \sum_m \beta_m X_{it-1}^{(m)} + \varphi_t + \lambda_i + \varepsilon_t \qquad (16)$$

The results, presented in Panel A, Column 1 of Table 9, indicate a statistically significant clustering effect. Specifically, a 1% increase in Log(PR) during election quarters (Q1-Q3) leads to a 0.5993% decrease in Log(Maturity) at the 1% significance level. Thus, political risk amplifies the shortening of debt maturity during election quarters.

Secondly, to validate these findings, I conduct a clustering analysis and filter the dataset to include only Q1-Q3 of presidential election years (1327 observations). I categorize Log(Maturity) into two bins based on its median value (50^{th} percentile=0.88) of its overall distribution: maturityBin = 1: Firms with Log(Maturity) < 0.88 (shorter-term new debt issuance); and maturityBin = 2: Firms with Log(Maturity) ≥ 0.88 (longer-term new debt issuance) during Q1-Q3 of presidential election years. Given that maturityBin is a binary outcome variable with two outcomes, I use a binary logistic regression (BLR) model (Hosmer et al., 2013) to estimate the log odds of a firm choosing to issue short-term debt versus long-term debt, with the reference category maturityBin = 2. The binary logistic regression model is as follows:

$$Log\left(\frac{P(maturityBin = 1)}{P(maturityBin = 2)}\right) = \alpha + \beta_1 Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \varepsilon_t \qquad (17)$$

Here, P(maturityBin=1) represents the probability of issuing short-term debt, and P(maturityBin=2) represents the probability of issuing long-term debt. The dependent variable captures the log-odds of choosing shorter-term over longer-term debt issuance. Here, P(maturityBin=2) = 1 − P(maturityBin=1), which is the canonical logit transformation used in logistic regression models. Standard errors are clustered at both the firm and year-quarter levels. Fixed effects are omitted due to the incidental parameters problem, which can bias coefficient estimates in nonlinear models like BLR.

Even without fixed effects, clustering standard errors protects against serial correlation and heteroskedasticity within firms.

The results are presented in Panel A, Column 2, Table 9. The positive coefficient of Log(PR) (β_2 = 0.1366, t-value = 2.01) indicates that higher firm-level political risk increases the log-odds of a firm issuing short-term debt (vs. long-term debt), significant at the 5% level. LR Chi-Square (60.43, p-value < 0.0001) indicates that the model is statistically significant and provides a good fit. The findings from both panel regression and BLR analysis consistently demonstrate that firms issue shorter-maturity debt during Q1-Q3 of presidential election years, as a precautionary measure against elevated political uncertainty.

4.2.4.5. Does monetary policy uncertainty (MPU) matter?

This study examines how new debt issuance maturity responds to firm-level political risk amidst economic uncertainty driven by monetary policies, utilizing the U.S. Monetary Policy Uncertainty (MPU) Index developed by Baker et al. (2016). To construct this index, Baker, Bloom, and Davis identify newspaper articles that meet specific "M criteria," including terms related to monetary policy and the institutions responsible for setting it.[37] The index is calculated as the ratio of M-criteria article counts to the total number of articles in the same newspapers and month. To capture the joint effect of monetary policy uncertainty and political risk, I interact the scaled MPU Index (divided by 100) with Log(PR), controlling for firm and year-quarter fixed effects:[38]

$$Log(Maturity)_{it} = \alpha_0 + \beta_1 Log(PR)_{it-1} \times MPU_{t-1} + \beta_2 Log(PR)_{it-1} + \sum_m \beta_m X_{it-1}^{(m)} + \lambda_i + \varphi_t + \varepsilon_t \quad (18)$$

[37] The terms include Federal Reserve, the Fed, money supply, open market operations, quantitative easing, monetary policy, Fed funds rate, overnight lending rate, Bernanke, Volcker, Greenspan, central bank, interest rates, Fed chairman, Fed chair, lender of last resort, discount window, European Central Bank, ECB, Bank of England, Bank of Japan, BOJ, Bank of China, Bundesbank, Bank of France, and Bank of Italy.

[38] φ_t accounts for macroeconomic shocks or monetary policy shifts that affect all firms in each period (e.g., changes in interest rates, economic policy uncertainty). Including MPU as a standalone variable in addition to year-quarter FE can double-count these effects, as the year-quarter FEs already capture aggregate, period-specific variation related to monetary policy.

Column 1 of Panel B in Table 9 shows that the interaction term $\text{Log(PR)}_{it-1} \times \text{MPU}_{t-1}$ is statistically significant and negatively associated with Log(Maturity) at the 10% significance level (coefficient= -0.0169, t-value = -1.95). Higher political risk, combined with greater uncertainty regarding monetary policy, encourages firms to issue shorter-term debt to maintain financial flexibility.

4.2.5. Additional robustness checks

4.2.5.1. Using untransformed new debt issuance maturity

I use Log(Maturity) to address skewness and heteroskedasticity in new debt issuance maturity distribution, following Brockman et al. (2010) and Huang et al. (2023). The untransformed issue-size-weighted average maturity distribution is right-skewed, with some firms issuing significantly longer-term debt, influencing results (see upper panel of Appendix 2). Similarly, untransformed firm-level political risk (PRisk) is right-skewed (see lower panel of Appendix 2). Log transformations normalize distributions, stabilize variance, and improve regression estimates.

To test robustness, I conduct a check using the issue-size-weighted average untransformed maturity of new debt issuance as the dependent variable, alongside untransformed PRisk. The model, as shown in Equation (1), replaces Log(Maturity) with Maturity and Log(PR) with PRisk, with results reported in Panel B, Column 2 of Table 9. A 1-unit increase in PRisk corresponds to a decrease of 0.000743 years in untransformed maturity. So, for a firm with a political risk of, say, 500, the change in debt maturity would be: $-0.000743\times(500)=-0.367$ years. While the regression using untransformed maturity and PRisk show statistically significant coefficients, their magnitudes are smaller than those from the Log(Maturity) and Log(PR) model, suggesting that the untransformed data may not fully capture the effect's intensity due to skewness and scale mismatch. Therefore, Log(Maturity) and

Log(PR) are preferred for their robustness and clearer interpretation.[39] However, the consistency of findings across both models means the relationships are reliable and not due to chance.

4.2.5.2. Dynamic GMM model

As an additional robustness check for the static fixed-effects model, I estimate a dynamic panel model using the Generalized Method of Moments (GMM) to address potential autocorrelation and endogeneity in the Log(Maturity). The Arellano-Bond estimator (Arellano & Bond, 1991) is employed, which removes time-invariant fixed effects via first differencing. The lagged dependent variable and potentially endogenous firm-level regressors are instrumented using their first lags, while macroeconomic controls are treated as exogenous.[40] The model is specified as follows:

$$Log(Maturity)_{t+1} = \alpha + \theta Log(Maturity)_{it} + \gamma Log(\mathrm{PR})_{it} + \beta X_t + \sum_m \delta_m Z_{it}{}^{(m)} + \omega_i + \mathcal{E}_t \tag{19}$$

Here, m is the number of firm-specific controls (Z_{it}), macroeconomic controls X_t such as market volatility (VIX), and term spread (difference between 10-year and 3-month treasury rate), and ω_i are unobserved firm-specific effects. Panel B Table 9 Column 3 shows $Log(\mathrm{PR})_{it}$ is statistically significant and negative (γ= -0.3208, t-value=-2.17). A 1% increase in Log(PR) leads to an approximate 0.3208% decrease in Log(Maturity) and a 27.50% decrease in original maturity. This translates to a one-unit increase in PRisk leading to a 20.00% decrease in original maturity, suggesting that firms issue shorter-term debt amid high political uncertainty. Since $Log(Maturity)_{it}$ is statistically insignificant, maturity does not exhibit strong persistence over time, and current new debt maturity decisions are not driven by past new debt maturity choices. Thus, the static fixed-effects model is not

[39] Log transformation is useful when variables differ widely in scale—such as political risk (2.27 to 1053.78) and new debt issuance maturity (3.01 to 30.20) after winsorization. It reduces skewness, improves linearity and homoscedasticity, and allows coefficients to be interpreted as percentage changes, making the results more intuitive and comparable across firms.

[40] Log(Maturity)$_{t-1}$ serves as an instrument for Log(Maturity)$_{t-1}$. The number of instruments is much lesser than the number of cross-sectional units, thus avoiding weak instrument problems (e.g., 1405 firms, 19 instruments).

misspecified. Results from Equations (1) and (19) are similar in magnitude, reinforcing the validity of the FE estimates as the primary specification.[41]

[Table 9 here]

5. Conclusion

This study offers new insights into how firm-specific political risks by Hassan et al. (2019) influence corporate debt maturity decisions. Firms facing heightened political uncertainty tend to shorten debt maturities to manage financial exposure and mitigate borrowing constraints, underscoring the importance of firm-level political risk beyond aggregate policy uncertainty.

The analysis reveals substantial heterogeneity in responses. Weaker credit profiles and near-term maturing intellectual property holdings face tighter constraints, while larger firms and those aligned—industrially or geographically—with the ruling federal party tend to secure longer-term financing. Political engagement strategies such as lobbying and bipartisanship further moderate the impact. Additionally, elevated cash flow volatility and clustering around Q1–Q3 of presidential election years highlight how political cycles shape new debt issuances. Monetary policy uncertainty amplifies these effects, reinforcing the preference for shorter-term debt under heightened risk.

This study advances corporate finance literature by showing the asymmetric effects of political uncertainty on capital structure. The findings carry practical implications: managers should maintain liquidity buffers and diversify debt maturities, while hedging strategies, including political contributions and regulatory advocacy—can mitigate risk. Policymakers can support stability via targeted interventions (e.g., loan guarantees or central bank facilities) during political uncertainties.

[41] A Hausman test comparing FE (Table 2, Column 1) and GMM (Panel B, Table 8, Column 3) confirms that the differences are statistically insignificant, supporting the consistency of the FE estimates. The dynamic GMM thus serves as a robustness check, confirming that ignoring dynamics does not introduce bias.

While the focus is on U.S. firms within a polarized presidential system, results may differ across parliamentary systems, centralized regimes, or emerging markets. In autocratic settings, political connections may play a more pivotal role in financing, altering new debt issuance dynamics. Future research could extend this framework to cross-country analyses and explore how political risk affects other corporate decisions such as dividends, equity issuance, and investment timing.

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Table 1: Descriptive statistics

Variable	Observations	Mean	Std. Dev.	Min.	Max.
Log(Maturity)	8,872	1.005	0.225	0.003	1.699
Maturity	8,872	11.851	6.774	3.01	30.20
Total assets	8,872	147393.100	416806.100	919.805	3954687
Qratio	8,872	1.718	1.000	0.880	12.930
Size	8,872	4.357	0.768	2.964	6.597
PRisk	8,872	137.720	157.707	2.2784	1053.789
Log(PR)	8,872	2.144	2.347	0.353	3.597
MPU	8,872	87.282	46.108	24.892	252.100
DEratio	8,872	2.189	6.946	-26.887	182.806
STI	7,449	3.026	1.049	0.557	6.024
LAratio	8,872	0.342	0.173	0.023	0.975
ALratio	7,449	4.626	5.165	1.018	44.005
PSENT	8,872	1.230	1.227	-8.861	11.019
HHindex	8,872	0.075	0.108	0.020	1.000
InstitutionalOwnership	8,872	0.700	0.225	0.000	1.910
Book-to-Market ratio	8,872	0.567	0.386	0.002	6.399
Price-to-Earnings ratio	8,872	22.433	44.170	-127.130	758.328
Price-to-CashFow ratio	8,872	11.782	17.730	-34.274	400.801
ROA	8,872	0.116	0.078	-3.240	1.046
TotalDebtToInvestedCapital	8,872	0.560	0.388	0.073	4.085
CapitalRatio	8,872	0.423	0.203	0.071	1.700
IER	8,872	0.044	0.022	0.001	0.433
TotalDebt-to-EBITDA	8,872	3.559	6.793	-138.820	355.703
CashflowToDebtRatio	8,872	0.139	0.124	-0.069	1.721
LTdebt-to-BookValueofEquity	8,872	1.145	4.963	0.002	290.754
InterestCoverageRatio	8,872	8.871	15.982	-0.199	544.553
CashRatio	8,872	0.385	0.518	0.001	7.333
AccPaybleTurnoverRatio	8,872	8.249	11.644	-0.005	251.296
R&D-to-sales ratio	8,872	0.014	0.041	0.004	0.405
Price-to-BookValue	8,872	3.620	6.889	0.057	99.669
CurrentRatio	8,872	1.244	0.955	0.047	8.851
CFV	8,872	13.926	7.340	0.250	90.500

Table 1 presents the summary statistics of the variables employed in the research and regression analysis. Variables include natural logarithm of debt issuance maturity and firm-level political risks, untransformed maturity and firm-level political risk, total assets, Tobin's Q ratio, debt-to-EBITDA ratio, Herfindahl–Hirschman (HH) index, debt-to-equity (D/E) ratio, cash flow-to-debt ratio, debt-to-invested capital ratio, liability-to-asset ratio, asset-to-liability ratio, return on asset (ROA), institutional ownership as a percentage of total shares outstanding, capital ratio, interest expense ratio (IER), interest coverage ratio, inventory turnover ratio, accounts payables turnover ratio, R&D-to-sales ratio, price-to-book value ratio, price-to-cash flow ratio, price-to-earnings ratio, long-term debt-to-book value of equity ratio, current debt-to-total debt ratio, cash ratio, cashflow volatility (CFV), and short-term investment ratio. The table provides an overview of the key statistical measures, such as means, standard deviations, and minimum and maximum values, of the variables utilized in the study.

Table 2: Impact of Log(PR) on Log(Maturity) and its proxies.

Variable	Log(Maturity) (1)	Log(Maturity) (2)	IER (3)	Log(Maturity) (4)	R&D-to-Sales (5)
$Log(PR)_{it-1}$	-0.3310**	-0.3318*	0.5843 **	-0.2752*	-0.1720 **
	(-2.09)	(-1.75)	(2.16)	(-1.73)	(-2.03)
$PSENT_{it-1}$	0.0344***	0.0402***			
	(2.60)	(2.48)			
$IER_{it-1}\times Log(PR)_{it-1}$				-0.1970*	
				(-1.75)	
$EffectiveTaxRate_{it-1}$	0.0360				
	(0.52)				
$DebtToEBITDA_{it-1}$	-0.2364***	-0.2134*	0.3170	-0.2507***	
	(-2.33)	(-1.76)	(1.60)	(-2.47)	
$DEratio_{\ it-1}$	-0.7658	-0.4421	0.3440***	-0.7259	
	(-1.08)	(-1.03)	(2.78)	(-1.03)	
$HH\_index_{\ it-1}$	0.2116*	0.15	-0.0256		
	(1.81)	(1.32)	(-1.25)		
$CashflowtoDebt_{it-1}$	-0.0234	-0.3541	0.0145		-0.6040**
	(-0.04)	(-1.22)	(1.58)		(-1.99)
$DebtToInvestedCapitalRatio_{it-1}$	-1.1666	-0.2617	0.4624	-0.8385	
	(-0.95)	(-1.53)	(0.23)	(-0.69)	
$LAratio_{\ it-1}$	-0.2828		-0.1737***		
	(-0.87)		(-3.09)		
$ALratio_{\ it-1}$	0.0119		0.1356***		-0.0782
	(0.86)		(6.04)		(-1.13)
$CapitalRatio_{it-1}$	-1.0733	-0.0116	0.1439	-0.7327	-0.4123
	(-0.91)	(-0.51)	(0.75)	(-0.62)	(-0.17)
IER_{it-1}	-2.6413*	-5.8678***		-2.9533*	0.1514
	(-1.74)	(-2.9)		(-1.73)	(0.16)
$InterestCoverageRatio_{it-1}$	0.0133	0.1058	-0.3963***	0.7066	
	(0.46)	(0.32)	(-7.81)	(0.24)	
$AccPayableTurnover_{it-1}$	-0.0867*		0.2988***	-0.0110**	0.0768***
	(-1.70)		(3.49)	(-2.12)	(2.63)
$PriceToCF_{it-1}$	0.0473		-0.0492	0.3973	-0.0105
	(1.06)		(-0.62)	(0.90)	(-0.43)
$PEratio_{it-1}$	0.0297		-0.0835	0.0396	-0.0569*
	(0.55)		(-0.09)	(0.75)	(-1.92)
$LTdebtToBookValueofEquity_{it-1}$	-0.0136*	-0.0142		0.0119	-0.0609
	(-1.81)	(-0.96)		(1.57)	(-1.44)
$CurrentRatio_{it-1}$	-0.1296	-0.2902	0.1458*	-0.0808*	-0.4337
	(-0.26)	(-1.36)	(1.74)	(-1.82)	(-0.43)
STI_{it-1}	-0.4340**	-0.258		-0.3690**	
	(-2.24)	(-0.17)		(-1.97)	
$CashRatio_{it-1}$	-0.0774*				0.8745
	(-1.74)				(0.67)
$BookToMktRatio_{it-1}$			-0.5615***		
			(-5.73)		
$R\&D\text{-}to\text{-}Sales_{it-1}$				5.7253	
				(0.91	
ROE_{it-1}				0.1751***	-0.4049***
				(2.45)	(-7.41)
$InventoryTurnOverRatio_{it-1}$			-0.0725	0.0061	
			(-0.58)	(0.76)	
ROA_{it-1}					-0.8415*
					(-1.72)
$EquityToInvestedCapital_{it-1}$					-0.0997
					(-0.39)
$DividendYield_{it-1}$					0.2966 ***
					(3.12)
$PriceToBookValue_{it-1}$					0.1873***
					(5.30)
$Size_{it-1}$	0.2559	0.1930***	0.2801***	0.0286	0.0159
	(0.51)	(4.39)	(11.21)	(0.57)	(1.36)
Adj. R^2	0.1453	0.1133	0.4766	0.1465	0.1700
Firm FE	Yes	No	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	No	No	No
Observations	7438	7952	7438	7438	7438

Table 2 shows the results of fixed effect panel regression on the impact of Log(PR) on Log(Maturity) and its proxies (IER and R&D-to-sales ratio). The dependent variable is the natural logarithm of newly issued debt maturity (Log(Maturity)). The independent and control variables are lagged by one-quarter. The standard errors have been congregated at the firm level and fitted for heteroskedasticity. The coefficients of estimations are presented with ***, **, and * which show statistical significance at 1%, 5%, and 10% levels. The t-values are reported in parentheses. The standard errors are robust and clustered at the firm (industry for Column 2) and year-quarter levels.

Table 3: 2SLS model with Bartik instrument and PSM test

Variables	Bartik Intrument Test		PSM test
	First-stage model Log(PR)	**Second-stage model Log(Maturity)**	**Log(Maturity)**
	(1)	**(2)**	**(3)**
Log(PR) $_{it-1}$		-0.3006***	-0.4010**
		(-2.56)	(-2.11)
Bartik$_{it}$	0.1680***		
	(3.09)		
LR test statistics	10.55		
	p-value= 0.002		
Under-identification test			
Anderson canonical correlation LM statistic		10.57 p-value= 0.00	
Controls	Yes	Yes	Yes
Adj. R^2	0.9354	0.4335	0.158
Year-quarter FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Observations	7438	7438	5798

Table 3 Columns 1 and 2 incorporate the national geopolitical risk index in a Bartik instrument to estimate the first-stage and second-stage outcomes of a 2SLS model, assessing the relationship between Log(Maturity) and Log(PR). Column 3 shows the result for PSM test. All explanatory variables are lagged by one quarter, except the interaction term, Bartik coefficient, and ElectionQuarter dummy. Control variables include ROA, firm size, price-to-cash flow ratio, book-to-market ratio, leverage metrics (long-term debt to EBITDA, debt-to-equity, debt-to-invested capital), liquidity ratios (current ratio, liability-to-asset, asset-to-liability), R&D-to-sales, interest expense ratio, PE ratio, short-term investment ratio, payable and inventory turnover ratios, price-to-book value, HH index, cash flow to debt ratio, dividend yield, capital ratio, and long-term debt to book value of equity ratio. Standard errors are robust, clustered at the firm and year-quarter levels, and adjusted for heteroskedasticity. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively, with t-values in parentheses.

Table 4: Cash flow moderation path analysis (Panel A) and impact of credit ratings (Panel B).

Panel A

	CFV (1)	Log(Maturity) (2)
Log(PR) $_{it-1}$	2.2298***	-0.3207**
	(5.67)	(-2.09)
CFV $_{it-1}$		-0.1670***
		(-6.28)
Controls	Yes	Yes
Adj. R^2	0.4068	0.1453
Firm FE	Yes	Yes
Year-quarter FE	Yes	Yes
Observations	7438	7438

Panel B

	Log(Maturity) (1)	Low Credit Rating (2)	High Credit Rating (3)
Log(PR) $_{it-1}$	-0.3434**	-2.1415***	0.0602*
	(-2.03)	(-2.5)	(1.67)
Log(PR) $_{it-1}$**×S&PQualityRank** $_{it-1}$	0.0870*		
	(1.77)		
S&PQualityRank $_{it-1}$	0.1236**	0.1564*	0.6537**
	(2.27)	(1.75)	(2.18)
Controls	Yes	Yes	Yes
Adj. R^2	0.1995	0.5319	0.4261
Firm FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Observations	7438	1690	2370

Table 4 displays the results of fixed effects panel regressions analyzing the moderating effect of cash flow volatility (CFV) on Log(Maturity) and Log(PR) relationship in Panel A, and the results of fixed effects panel regressions analyzing the effect of Log(PR) and credit rating on Log(Maturity) in Panel B. In panel B, Column 1 shows the impact of interaction terms and Columns 2 and 3 show subsample analysis results. I choose from ROA, size, price-to-cash flow ratio, book-to-market ratio, long-term debt to EBITDA ratio, interest coverage ratio, debt-to-equity ratio, debt-to-invested capital ratio, current ratio, liability-to-asset (LA) ratio, asset-to-liability (AL) ratio, R&D-to-sales ratio, interest expense ratio (IER), PE ratio, short-term investment (STI) ratio, payable turnover ratio, inventory turnover ratio, price-to-book value ratio, HH index, cash flow to debt ratio, dividend yield ratio, capital ratio, long-term debt to book value of equity ratio as controls in each of these regressions. All explanatory variables are lagged by one quarter. The standard errors are clustered at the firm level and adjusted for heteroskedasticity. The estimated coefficients are marked with ***, **, and * to indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The t-values are provided in parentheses, and the standard errors are robust and clustered at the firm and year-quarter levels.

Table 5: Near-term patent maturity (Panel A), and firm size (Panel B)

Panel A		
	Log(Maturity) **(1)**	**Log(Maturity)** **(2)**
Log(PR) $_{it-1}$	-0.1371**	-0.1404**
	(-2.19)	(-2.15)
Log(PR)$_{it-1}$ **× 3yrPatentMaturity** $_{it-1}$	-0.3288***	
	(-2.67)	
3yrPatentMaturity $_{it-1}$	-1.4377***	
	(-2.44)	
Log(PR) $_{it-1}$ **× 5yrPatentMaturity** $_{it-1}$		-0.1184**
		(-2.14)
5yrPatentMaturity $_{it-1}$		-1.3059**
		(-2.31)
Controls	Yes	Yes
Adj. R^2	0.6200	0.6290
Industry FE	Yes	Yes
Year-quarter FE	Yes	Yes
Observations	1476	1835

Panel B		
	Log(Maturity) **(1)**	**Log(Maturity)** **(2)**
Log(PR) $_{it-1}$	-0.1928**	-0.1357*
	(-2.31)	(-1.66)
Log(PR)$_{it-1}$**×Size**$_{it-1}$	0.1137***	
	(2.67)	
Size $_{it-1}$	0.3477***	
	(2.7)	
SizeD $_{it-1}$		-0.4926**
		(-2.16)
Log(PR)$_{it-1}$**×SizeD**$_{it-1}$		-0.3227***
		(-4.93)
Controls	Yes	Yes
Adj. R^2	0.1429	0.1253
Firm FE	Yes	Yes
Year-quarter FE	Yes	Yes
Observations	7438	7438

Table 5 displays the impact of near-term patent maturity (3-year and 5-year) for at least one patent on the relationship between Log(Maturity) and Log(PR) in Panel A. Panel B shows the impact of firm size on the relationship between Log(Maturity) and Log(PR). SizeD takes the value of 1 if a firm's size in each quarter is below the 50th percentile of the overall distribution, 0 otherwise. I choose from ROA, size, price-to-cash flow ratio, book-to-market ratio, long-term debt to EBITDA ratio, interest coverage ratio, debt-to-equity ratio, debt-to-invested capital ratio, current ratio, liability-to-asset (LA) ratio, asset-to-liability (AL) ratio, R&D-to-sales ratio, interest expense ratio (IER), PE ratio, short-term investment (STI) ratio, payable turnover ratio, inventory turnover ratio, price-to-book value ratio, HH index, cash flow to debt ratio, dividend yield ratio, capital ratio, long-term debt to book value of equity ratio as controls in each of these regressions. All explanatory variables are lagged by one quarter. The standard errors are clustered at the industry level (Panel A) and firm level (Panel B) and adjusted for heteroskedasticity. The estimated coefficients are marked with ***, **, and * to indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The t-values are provided in parentheses, and the standard errors are robust and clustered at the firm and year-quarter levels.

Table 6: Political lobbying in alignment with the federal ruling party, bipartisanship index, and total contributions to both parties.

Variables	Log(Maturity) (1)	Log(Maturity) (2)	Log(Maturity) (3)	Log(Maturity) (4)	Log(Maturity) (5)
Log(PR) $_{it-1}$	-0.1559**		-0.3521***		-0.2577**
	(-2.15)		(-4.7)		(-2.18)
Log(PR) $_{it}$ **× Alignment** $_{it}$	0.2076**				
	(2.18)				
Alignment $_{it}$	1.0011**	0.2380**			
	(2.12)	(2.02)			
Log(PR) $_{it}$ **× BI** $_{it}$			0.0924*		
			(1.81)		
BI $_{it}$			0.2011*	0.1826*	
			(1.87)	(1.77)	
Log(PR) $_{it}$ **× Log(TotalContributions)** $_{it}$					0.1551**
					(2.07)
Log(TotalContributions) $_{it}$					0.2458*
					(1.71)
Log(PR) $_{it}$	-0.0817*		-0.0833*		-0.0948*
	(-1.69)		(-1.77)		(-1.94)
Controls	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.6962	0.5031	0.6938	0.5765	0.6166
Firm FE	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes
Observations	1103	1103	1103	1103	1103

Table 6 displays the results of fixed effects panel regressions analyzing the impact of political lobbying in alignment with the federal ruling party (Republican Party in this case), the impact of the bipartisanship index, and the total contribution made to both political parties on the relationship between Log(Maturity) and Log(PR). I choose from ROA, size, price-to-cash flow ratio, book-to-market ratio, long-term debt to EBITDA ratio, interest coverage ratio, debt-to-equity ratio, debt-to-invested capital ratio, current ratio, liability-to-asset (LA) ratio, asset-to-liability (AL) ratio, R&D-to-sales ratio, interest expense ratio (IER), PE ratio, short-term investment (STI) ratio, payable turnover ratio, inventory turnover ratio, price-to-book value ratio, HH index, cash flow to debt ratio, dividend yield ratio, capital ratio, long-term debt to book value of equity ratio as controls in each of these regressions. All explanatory variables are lagged by one quarter, except the interaction terms, Alignment dummy, BI dummy, and Log(TotalContributions), as the ruling party can change between periods. Thus, a firm's alignment strategy, bipartisanship, and total contributions in year t−1 may not correspond to the same political risk conditions in year t. Using the current Log(PR) in the interaction term ensures that political risk and alignment are measured within the same period, avoiding inconsistencies caused by party transitions. The standard errors are clustered at the firm level and adjusted for heteroskedasticity. The estimated coefficients are marked with ***, **, and * to indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The t-values are provided in parentheses, and the standard errors are robust and clustered at the firm and year-quarter levels.

Table 7: Industry party affiliation and federal ruling party alignment

Variables	Log(Maturity) (1)	Log(Maturity) (2)	Log(Maturity) (3)	Log(Maturity) (4)	Log(Maturity) (5)
Log(PR) $_{it-1}$	-0.1447**	-0.2008**	-0.3745***	-0.6576**	
	(-2.06)	(-2.06)	(-2.52)	(-2.06)	
Log(PR)$_{it}$ × IndustryAlignment$_{it}$	0.0757***				
	(3.8)				
HighRisk$_{it}$ × Log(PR)$_{it}$					-0.1384***
					(-3.68)
Log(PR)$_{it}$	-0.0306*	-0.0344*			-0.02991*
	(-1.96)	(-1.89)			(-1.79)
Log(PR)$_{it}$ × PlaceboIndustryAlignment$_{it}$		-0.0291			
		(-0.91)			
Controls	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.469	0.381	0.1871	0.4900	0.4949
Year-Quarter FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Observations	5153	5153	1877	1932	5153

Table 7 displays the results of fixed effects panel regressions analyzing the impact of industry party affiliation in alignment with the federal ruling party (Republican Party in this case), placebo test, the impact of being in the Democrat-favored industry during Republican rule, and subsample analyses of firms in both type of industry party affiliations on the relationship between Log(Maturity) and Log(PR). I choose from ROA, size, price-to-cash flow ratio, book-to-market ratio, long-term debt to EBITDA ratio, interest coverage ratio, debt-to-equity ratio, debt-to-invested capital ratio, current ratio, liability-to-asset (LA) ratio, asset-to-liability (AL) ratio, R&D-to-sales ratio, interest expense ratio (IER), PE ratio, short-term investment (STI) ratio, payable turnover ratio, inventory turnover ratio, price-to-book value ratio, HH index, cash flow to debt ratio, dividend yield ratio, capital ratio, long-term debt to book value of equity ratio as controls in each of these regressions. All explanatory variables are lagged by one quarter, except the interaction terms, as the ruling party may change. Thus, an industry's alignment strategy in year t−1 may not correspond to the same political risk conditions in year t. Using the current Log(PR) in the interaction term ensures that political risk and alignment are measured within the same period, avoiding inconsistencies caused by party transitions. I also use the lagged Log(PR) as a standalone. The VIF measures ensure no high multicollinearity issue. The standard errors are clustered at the industry level and adjusted for heteroskedasticity. The estimated coefficients are marked with ***, **, and * to indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The t-values are provided in parentheses, and the standard errors are robust and clustered at the firm and year-quarter levels.

Table 8: State governor's party affiliation and federal ruling party alignment

Variables	Log(Maturity) (1)	Log(Maturity) (2)	Log(Maturity) (3)	Log(Maturity) (4)	Log(Maturity) (5)
Log(PR) $_{it-1}$	-0.1639***	-0.7817**	-0.4283**	-0.4040***	-0.3081***
	(-11.95)	(-2.28)	(-2.14)	(-3.18)	(-4.55)
Log(PR)$_{it}$ × StatePartyAlignment $_{it}$	0.0331*				
	(1.71)				
HighRisk2 $_{it}$ × Log(PR)$_{it}$					-0.0254**
					(-2.29)
Log(PR)$_{it}$	-0.0148*	-0.0231*			-0.0229*
	(-1.88)	(-1.67)			(-1.73)
Log(PR)$_{it}$ × PlaceboStateAlignment $_{it}$		-0.0320			
		(-0.36)			
Controls	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.3740	0.4490	0.1871	0.7770	0.2332
Year-Quarter	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Observations	7223	7223	3756	3467	7223

Table 8 displays the results of fixed effects panel regressions analyzing the impact of state governor's party affiliation in alignment with the federal ruling party (Republican Party in this case), placebo test, the impact of being in the Democrat-favored state during Republican rule, and subsample analyses of firms in both type of state party affiliations on the relationship between Log(Maturity) and Log(PR). I choose from ROA, size, price-to-cash flow ratio, book-to-market ratio, long-term debt to EBITDA ratio, interest coverage ratio, debt-to-equity ratio, debt-to-invested capital ratio, current ratio, liability-to-asset (LA) ratio, asset-to-liability (AL) ratio, R&D-to-sales ratio, interest expense ratio (IER), PE ratio, short-term investment (STI) ratio, payable turnover ratio, inventory turnover ratio, price-to-book value ratio, HH index, cash flow to debt ratio, dividend yield ratio, capital ratio, long-term debt to book value of equity ratio as controls in each of these regressions. All explanatory variables are lagged by one quarter, except the interaction terms, as the ruling party can change between periods. Thus, a state's alignment strategy in year t−1 may not correspond to the same political risk conditions in year t. Using the current Log(PR) in the interaction term ensures that political risk and alignment are measured within the same period, avoiding inconsistencies caused by party transitions. The standard errors are clustered at the industry level and adjusted for heteroskedasticity. The estimated coefficients are marked with ***, **, and * to indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The t-values are provided in parentheses, and the standard errors are robust and clustered at the firm and year-quarter levels.

Table 9: Clustering analysis, monetary policy uncertainty, and untransformed maturity and political risk.

Panel A

Variables	**Log(Maturity)** (1)	**BLR P(maturityBin=1)** (2)
Log(PR) $_{it-1}$	-0.1652**	0.1366**
	(-2.06)	(2.01)
ElectionQuarters $_{t}$ **× Log(PR)** $_{it}$	-0.5993***	
	(-5.06)	
Log(PR) $_{it}$	-0.0809*	
	(-1.94)	
LR test statistics		60.43
		p-value= 0.00
Controls	Yes	Yes
Adj. R^2	0.1483	0.4710
Year-quarter FE	Yes	No
Firm FE	Yes	No
Observations	7483	1327

Panel B

Variables	**Log(Maturity)** (1)	**Maturity** (2)	**Log(Maturity)** $_{t+1}$ (3)
PRisk $_{it-1}$		-0.000742**	
		(-2.01)	
Log(Maturity) $_{it}$			-0.0099
			(-0.14)
Log(PR) $_{it}$			-0.3208**
			(-2.17)
Log(PR) $_{it-1}$	-0.2529**		
	(-2.09)		
MPU $_{t-1}$ **×Log(PR)** $_{it-1}$	-0.0169*		
	(-1.95)		
Controls	Yes	Yes	Yes
Adj. R^2	0.458	0.533	0.2631
Year-quarter FE	Yes	No	No
Firm FE	Yes	Yes	Yes
AR(1) z-statistics			-2.013 (p-value=0.0441)
AR(2) z-statistics			-0.4112 (p-value=0.6809)
Observations	7438	7438	6376

Table 9 Column 1 presents fixed effects panel regression results analyzing the clustering tendency in Log(Maturity) during the first three-quarters of election years. A binary logistic model in Column 2 further examines clustering behavior, with maturityBin=2 (long-maturity debt) as the reference category, displaying results for maturityBin=1. Panel B, Column 1 shows the impact of monetary policy uncertainty (MPU) and Log(PR) on Log(Maturity). Column 2 shows the relationship between untransformed firm-level political risks and weighted average newly issued debt maturity, as a robustness check. Column 3 shows the results of the dynamic panel model using GMM estimation. The Arellano–Bond test for zero autocorrelation checks for serial correlation in the first differenced residuals of the dynamic panel model. The AR(1) coefficient -0.0213 is significant (p=0.0441) indicating first-order autocorrelation, as expected in first-differenced GMM models. The AR(2) coefficient -0.4112 is insignificant (p=0.68), showing no second-order autocorrelation, validating the use of lagged levels as instruments. All explanatory variables are lagged by one quarter, except the interaction term in Panel A. Control variables include ROA, firm size, price-to-cash flow ratio, book-to-market ratio, leverage metrics (long-term debt to EBITDA, debt-to-equity, debt-to-invested capital), liquidity ratios (current ratio, liability-to-asset, asset-to-liability), R&D-to-sales, interest expense ratio, PE ratio, short-term investment ratio, payable and inventory turnover ratios, price-to-book value, HH index, cash flow to debt ratio, dividend yield, capital ratio, and long-term debt to book value of equity ratio. Standard errors are robust, clustered at the firm and year-quarter levels, and adjusted for heteroskedasticity. Statistical significance is denoted by ***, **, and * at the 1%, 5%, and 10% levels, respectively, with t-values in parentheses.

Appendix 1

Pearson's Correlation

Variables	Log (Mat.)	Q ratio	size	Log (PR)	DE ratio	STI	LA ratio	AL ratio	PSE NT	HH index	IO	BookTo Mkt	PE ratio	Price ToCF
Log(Mat.)	1													
Qratio	0.05	1.00												
size	0.03	-0.18	1.00											
Log(PR)	-0.48	-0.06	0.13	1.00										
DEratio	-0.02	0.01	0.09	0.03	1.00									
STI	0.00	0.00	0.85	0.13	0.09	1.00								
Laratio	-0.09	0.16	-0.23	-0.04	0.29	-0.27	1.00							
Alratio	0.09	-0.19	0.23	0.09	-0.11	0.23	-0.66	1.00						
PSENT	0.01	0.16	-0.01	-0.04	-0.01	0.02	0.01	-0.05	1.00					
HHindex	-0.03	-0.09	-0.05	-0.03	0.08	-0.07	0.13	-0.04	-0.04	1.00				
IO	-0.04	0.09	-0.07	0.04	-0.06	0.02	-0.09	0.03	0.04	-0.50	1.00			
BookTo Mkt	0.00	-0.55	0.21	0.10	-0.07	0.08	-0.20	0.26	-0.17	0.07	-0.06	1.00		
PEratio	0.01	0.10	-0.02	-0.01	0.00	0.00	0.01	-0.03	0.01	0.00	0.01	-0.07	1.00	
PriceToCF	0.00	0.22	-0.02	0.02	-0.03	0.04	-0.03	-0.01	0.07	-0.04	0.07	-0.15	0.07	1.00
ROA	0.06	0.62	-0.29	-0.10	-0.02	-0.13	0.14	-0.29	0.14	-0.12	0.11	-0.52	0.02	0.08
TotalDebt ToInvCap	-0.07	-0.04	0.38	0.09	0.24	0.36	0.27	-0.21	-0.08	-0.06	-0.01	0.03	0.02	-0.03
capitalRatio	-0.05	0.14	0.14	0.03	0.25	0.13	0.43	-0.33	0.04	-0.07	0.07	-0.11	0.08	0.02
IER	0.11	-0.05	-0.44	-0.05	0.01	-0.46	0.24	-0.16	0.00	0.09	-0.05	-0.02	0.03	-0.06
debtTo ebitda	-0.01	-0.15	0.26	0.09	0.07	0.25	0.07	-0.04	-0.07	0.00	-0.02	0.21	-0.01	0.01
CashflowTo Debt	0.05	0.48	-0.24	-0.08	-0.09	-0.08	-0.05	-0.16	0.10	-0.09	0.10	-0.36	0.04	0.01
LTdebtToB VofEquity	-0.04	0.02	0.03	0.00	0.25	0.04	0.16	-0.07	0.01	0.01	0.02	-0.07	0.01	-0.01
Interest Coverage	0.02	0.34	-0.02	-0.04	-0.05	0.10	-0.18	0.10	0.08	-0.08	0.06	-0.25	-0.02	0.05
cashRatio	0.01	0.33	-0.23	-0.06	-0.04	-0.02	0.14	-0.18	0.08	0.04	0.04	-0.26	0.04	0.06
payableT/O	0.03	0.11	-0.23	0.01	-0.02	-0.17	0.11	-0.06	0.01	0.01	0.05	-0.09	0.01	0.03
R&Dto Sales	0.01	0.35	0.00	-0.03	-0.04	0.17	-0.04	-0.06	0.07	-0.08	0.08	-0.27	0.08	0.12
priceToBV toEquity	0.02	0.58	-0.06	-0.02	0.25	0.04	0.14	-0.11	0.09	-0.06	0.05	-0.39	0.07	0.14
Current Ratio	0.01	0.30	-0.47	-0.11	-0.04	-0.32	0.27	-0.34	0.08	0.07	0.04	-0.33	0.02	0.05
CFV	-0.04	-0.08	0.38	0.05	0.03	0.36	-0.05	0.02	-0.05	0.03	-0.04	0.12	-0.02	0.00

Variables	ROA	TotalDebt ToInvCap	capita lRatio	IER	Debt2 ebitda	Cashflow ToDebt	LTdebtTo BVofEquity	interestC overage	cash Ratio	payab leT/O	R&Dto Ssales	priceToBV toEquity	curren tRatio	CFV
PEratio														
PriceToCF														
ROA	1													
TotalDebtT oIncCap	-0.13	1.00												
capitalRatio	0.13	0.67	1.00											
IER	0.16	-0.28	-0.13	1.00										
debtTo ebitda	-0.27	0.43	0.26	-0.20	1.00									
CashflowTo Debt	0.78	-0.31	-0.18	0.10	-0.25	1.00								
LTdebtToB VofEquity	0.02	0.18	0.29	-0.02	0.06	-0.04	1.00							
Interest Coverage	0.48	-0.19	-0.19	-0.13	-0.14	0.54	-0.04	1.00						
cashRatio	0.26	-0.26	-0.19	0.15	-0.17	0.40	-0.03	0.18	1.00					
payableT/O	0.16	-0.11	0.01	0.19	-0.08	0.12	0.01	0.03	0.15	1.00				
R&Dto Sales	0.26	-0.08	-0.04	-0.11	-0.08	0.35	-0.02	0.21	0.47	-0.03	1.00			
priceToBV toEquity	0.39	0.13	0.33	-0.06	-0.06	0.20	0.36	0.15	0.09	0.06	0.17	1.00		
Current Ratio	0.36	-0.39	-0.26	0.35	-0.27	0.43	-0.06	0.14	0.79	0.19	0.32	0.06	1.00	
CFV	-0.14	0.22	0.10	-0.23	0.19	-0.12	0.02	-0.04	-0.08	-0.10	-0.03	-0.03	-0.17	1.00

This table presents Pearson's correlation coefficients among the primary dependent, independent, and control variables used in the models.

Appendix 2

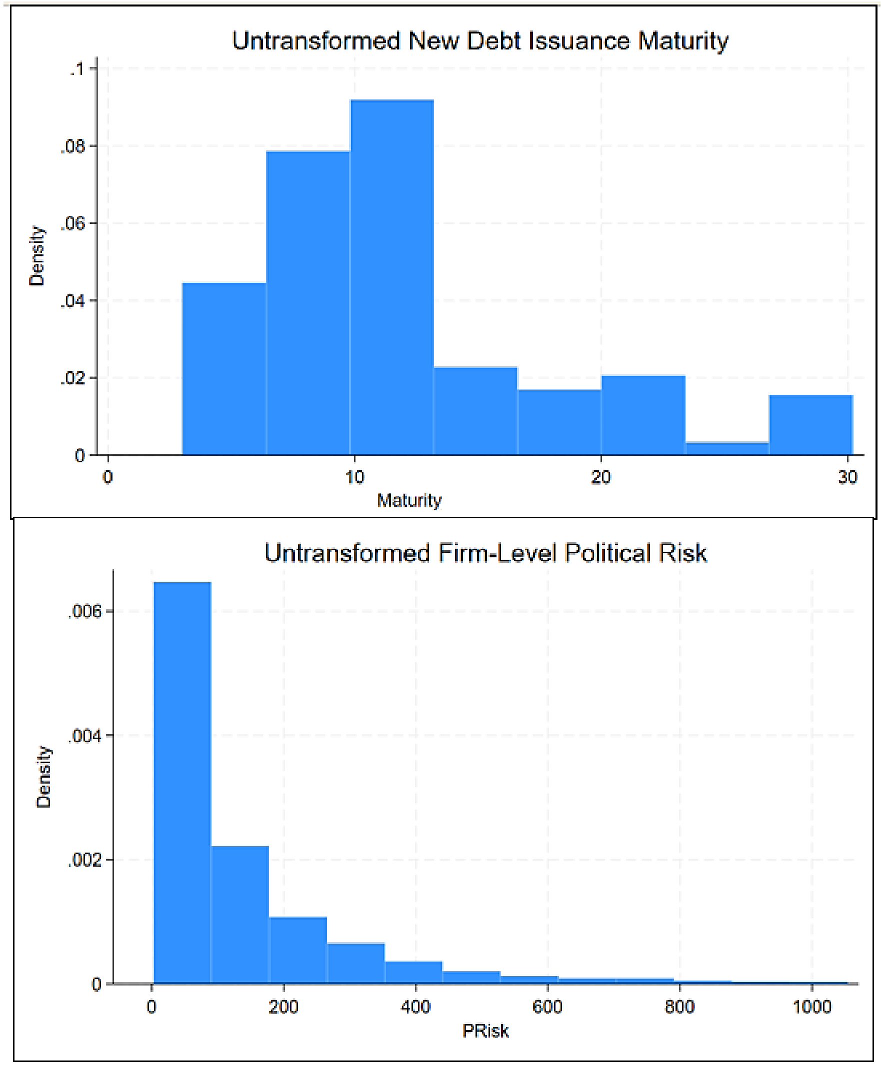

Figure A: Distribution of Untransformed Firm-level Political Risks and Weighted Average New Debt Issuance Maturity.

The upper panel of Figure A presents the distribution of untransformed weighted average new debt issuance maturity across firms, revealing a pronounced right-skewed pattern. Similarly, the lower panel of Figure A illustrates the distribution of untransformed firm-level political risk, which also exhibits a right-skewed structure. The observed skewness in both distributions underscores the necessity of applying a log transformation, which helps normalize the data, mitigate the influence of extreme values, and improve the robustness of statistical analyses conducted in this study.