

# ***The Impact of a Series of Pension Fund Divestments and the Elon Musk-Donald Trump Conflict on Tesla's Stock Price in 2025: An Event Study Approach***

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**Abstract.** This study examines the impact of a series of pension fund divestments on stock price of Telsa in 2025, driven by ESG concerns such as labor rights violation and governance risks associated with Elon Musk's political activities and the conflict between Musk and Trump generated value-relevant stock-price reactions. Using an event study approach, we analyzed abnormal returns around seven key events employing the CAPM, Fama-French three-factor model, and a matching-firm comparison with BYD. Results indicate mixed but indicate that significant short-run losses around the Musk-Trump conflict, while most divestment announcements have a small or insignificant impact on Tesla stock price. The BYD matching shows Tesla's relative underperformance in five of seven events, suggesting an ESG-specific channel beyond sector-wide shocks. These findings highlight Tesla's vulnerability in stock price related to ESG-driven capital reallocation and CEO political exposure and they highlight the role of event salience and sequencing in shaping market reactions.

**Keywords:** ESG divestments, event study, CEO key-person risks, abnormal returns, Telsa

## **1. Introduction**

In 2025, Tesla faced two significant challenges that markedly affected its market performance: a series of pension fund divestments driven by Environmental, Social, and Governance (ESG) concerns, and a high-profile conflict between CEO Elon Musk and Donald Trump over fiscal policies and subsidies. On the ESG front, key institutional investors pulled back: AP7, for example, blacklisted Tesla and offloaded \$1.36 billion worth of its shares, while funds like Lehigh County and Akademiker Pension also withdrew their investments. Tesla's violations of labor rights and governance risks tied to Musk's political activities. These moves didn't just signal widespread institutional doubt about Tesla's sustainability practices—they also made the firm's stock more volatile, raising concerns about shrinking market liquidity and growing selling pressure. At the same time, the Musk-Trump conflict eroded investor confidence: a stark example came on June 5, 2025, when Tesla's stock dropped 14%, wiping out \$150 billion of its market value. Against this backdrop,

our study tackles a critical question: How did the 2025 pension fund divestments and the Musk-Trump conflict together impact Tesla's stock price?

We undertook this study for two key reasons. First, ESG factors and CEO-related political risks are increasingly shaping stock performance—especially in subsidy-reliant sectors like electric vehicles (EVs), where Tesla is a market leader. Second, while past research has focus on individual events such single ESG divestments or a CEO's political controversies, few studies have explored how these events combined affect a major industry player like Tesla. This gap is what our research aims to fill.

Our work makes three main contributions. First, we provide real-world evidence that both ESG-driven divestments and high-stakes political feuds lead to negative abnormal returns. To ensure our findings are reliable, we used a multi-event study design that draws on the Capital Asset Pricing Model (CAPM), Fama-French models, and matching-firm approaches. Second, we show how a CEO's behavior—specifically Musk's political activities—amps up ESG-related risks. This gives investors actionable insights, they can refine how they screen for governance risks and diversify their portfolios when controversies like these arise. Third, we advance event study methods by adapting them to analyze two interconnected, modern challenges: ESG scrutiny and CEO political risk. These are increasingly key factors in how companies are valued globally, and our approach helps capture their combined impact.

## 2. Case summary

### 2.1. Overview of ESG investing

Environmental, Social, and Governance (ESG) criteria evaluate a company's sustainability and ethical impact. For public companies like Tesla, ESG is crucial as it aligns with the core brand identity of promoting sustainable energy, enhancing consumer appeal and enabling access to lower financing costs through green bonds. High ESG scores attract long-term institutional investors, such as pension funds and sovereign wealth funds.

### 2.2. Rationale for pension fund investments in Tesla

Pension funds are long-term institutional investors that manage retirement savings for large groups of employees, often prioritizing stable, sustainable investments with strong growth potential and ethical alignment. These funds typically prefer assets that demonstrate robust ESG performance, as this mitigates risks and supports fiduciary duties to beneficiaries. Tesla was one of the preferred companies for these pension funds due to its leadership in the electric vehicle (EV) sector and its environmental contributions, such as accelerating the transition to renewable energy. Pension funds initially invested in Tesla due to its strong ESG performance, particularly in the environmental dimension, and its potential for long-term growth in the EV sector. In Europe, Tesla's high ESG ratings facilitated inclusion in sustainable portfolios.

### 2.3. Reasons for divestments in 2025

At Tesla's Gigafactory Berlin-Brandenburg, recurring labor-relations frictions have created reputational and compliance risks that can spill over into operations and valuation. Tesla German factory face with accusations about violations of labor rights, especially sick leave and work condition [1]. Regarding sick leave, IG Metall which is a German union has accused that Tesla refuse to pay the employees who are sick leave and company doubt about the valid sick leave and

threaten to withhold wages [2]. Also, company request employees to disclose their medical diagnoses as a condition to receive sick pay. This violates German private laws and doctor-patient relationship. Regarding work condition, IG Metall said that people are concern about high workload work issue. Some of the workers reflect that unreasonably working time and lack of time for basic rest. Also workers are threaten and pressured by the management. In Sweden, Tesla refuses to sign collective bargaining agreement with unions like IF Metall. This stance led strike and solidarity action from other unions which are in Nordic region.

### 2.4. Elon Musk's involvement in U.S. politics

Musk's high-profile and controversial actions on X (such as on endorse antisemitic comments and sharing conspiracy theories 2023-11-16 and in November 2021 set a user poll about selling 10% of his shares of Tesla and this event cause 5% drop on Tesla stock price) repeatedly caused reputational damage; combined with the negative perceptions regarding employment and political involvement, this led to the polarization of the brand, setbacks for talent, and hesitation from partners [3-5]. The market reflected financial risks through abnormal returns and fluctuations, and a decline in stock prices in 2022 [6].

We select seven events happened in 2025 related to ESG factors. Table 1 summarize the key information of these events [7-13].

Table 1. The details of divestments announcement and must-trump conflict

Events	Major Pension Funds Divestment	ESG Factors	Fund Size	Selling Details
1	Seventh AP Fund (Swedish) Blacklisting	Social (labor rights violations)	SEK 1,440 billion(\$139.68 billion)	Selling amount is \$1.36 billion
2	The Conflict Between Musk and Trump	Governance (key-person risk)	n/a	n/a
3	Lehigh County Employees' Retirement Fund (US) halt investments announcement	Governance (Musk politics, performance risks)	\$631 million	Halted new investments and seeks full divestment.
4	KPA Pension (Swedish) divestment announcement	Social (employee rights violations)	SEK 350 billion(\$33.95 billion)	Full divestment
5	Brunel Pension Partnership (UK) divestment announcement	Governance (Musk's political involvement)	£35.9 billion(\$46.67 billion)	Dropped from active strategies.
6	Akademiker Pension (Danish) divestment announcement	Governance/Social (Musk politics, labor rights)	DKK 158 billion(\$23.70 billion)	Full divestment.
7	ABP (Dutch) divestment announcement	Governance (executive pay, working conditions)	€520 billion(\$577.20 billion)	Full divestment. Selling amount is \$600 million

Note. The fund sizes to US dollars are used approximate exchange rates as of August 19, 2025, based on standard financial sources.

### 3. Literature review

This section reviews key research on how Corporate Social Responsibility (CSR) and ESG factors influence stock prices, focusing on event study methods—critical for analyzing market reactions to discrete events like divestments or political disputes.

Flammer laid a foundational link between ESG events and stock performance via U.S. firm data. She found eco-friendly actions (e.g., renewable energy investment) drive positive abnormal returns, while ESG-harming events (e.g., pollution) trigger sharp stock declines, with long-term damage worsening under regulatory pressure or boycotts [14]. Her “ESG insurance effect” noted firms with strong ESG histories face milder downturns during controversies.

Krüger expanded this globally, showing negative CSR events (e.g., labor violations, product safety issues) cause immediate stock drops (due to investor fears of legal/reputational costs), while positive events (e.g., charity) have weak or negative returns. He added that CSR impacts intensify when paired with legal/economic news (e.g., labor investigations), as these tie CSR issues to profitability [15].

Capelle-Blancard and Petit focused on ESG news details, arguing even incremental ESG developments move markets [16]. Their European firm study found the strongest reactions to “social” (employee treatment) and “governance” (board independence) news, with environmental news having weaker effects—relevant for Tesla’s 2025 divestments, which centered on social (labor rights) and governance (Musk’s politics) risks.

Recent industry-specific studies include Carletti et al., who used Tesla data to show negative ESG news (e.g., poor working conditions) lowers its stock price—worsened by Tesla’s subsidy reliance, as investors fear subsidy cuts (a key EV revenue source) [17]. Dorfleitner and Zhang quantified ESG sentiment’s impact: positive news links to +0.31% abnormal returns, while negative news leads to -0.75% [18]. They also noted firms with weak ESG histories face harsher penalties for new controversies.

Collectively, these studies validate event studies for analyzing ESG/CEO political risks but leave a gap: few explore how serial institutional divestments and high-stakes CEO political conflicts jointly affect firms like Tesla. This study addresses this gap using robust frameworks (CAPM, Fama-French) to examine their combined 2025 impact on Tesla.

#### 4. Data and variables

Daily stock returns for Tesla (TSLA) and matching firm BYD were sourced from Yahoo Finance. Fama-French factors (MKT, SMB, HML) were obtained from Kenneth French's data library. The sample covers January 2, 2024, to June 30, 2025 (374 observations). Figure 1 shows the Tesla stock price changes during sample ranged. Table 2 summarize the definition of key variables, while Table 3 present the descriptive summary of key variables.



Figure 1. Telsa stock price trend

Table 2. Variable definition

Variable	Definition
TSLA	Daily percentage change in Tesla, Inc. (TSLA) stock price, adjusted for dividends and stock splits.
BYD	Daily percentage change in BYD Company Limited (BYD) stock price, adjusted for dividends and stock splits, used as a matching-firm benchmark for Tesla in the EV industry.
MKT	Excess return of the market portfolio over the risk-free rate, representing the overall market return minus the risk-free rate (e.g., Treasury bill rate).
SMB	Fama-French factor representing the excess return of small-cap stocks over large-cap stocks, capturing size-related risk premiums.
HML	Fama-French factor representing the excess return of high book-to-market (value) stocks over low book-to-market (growth) stocks, capturing value-related risk premiums.

Table 3. Descriptive summary

	MKT	SMB	HML	TSLA Return	BYD Return
Mean	0.08	-0.05	-0.02	0.16	0.18
Median	0.10	-0.09	-0.04	-0.05	0.00
Standard Deviation	1.13	0.73	0.75	4.30	2.31
Kurtosis	16.41	1.54	2.36	4.42	2.57
Skewness	0.76	0.55	0.29	0.74	0.35
Range	15.57	6.01	6.56	38.12	20.00
Minimum	-5.90	-2.40	-3.06	-15.43	-10.00
Maximum	9.67	3.61	3.50	22.69	9.99
Count	374	374	374	374	358

## 5. Methodology

This study employs an event study to assess the impact of seven ESG events on Tesla's (TSLA) stock price. We utilize three distinct approaches to estimate expected returns: the Capital Asset Pricing Model (CAPM), which accounts for market risk via a single factor; the Fama-French three-factor model, incorporating market, size (SMB), and value (HML) factors for enhanced robustness; and a matching-firm comparison using BYD, a leading EV competitor, to control for industry-specific shocks. The Capital Asset Pricing Model (CAPM) is

$$TSLA_t = \alpha + \beta_1 \text{Market}_t + \varepsilon_t$$

Fama-French Three-Factor Model is as followed:

$$TSLA_t = \alpha + \beta_1 \text{MKT}_t + \beta_2 \text{SMB}_t + \beta_3 \text{HML}_t + \varepsilon_t$$

The equation in the matching-firm comparison is

$$AR_t = \left( TSLA_t - \overline{TSLA}_t \right) - \left( BYD_t - \overline{BYD}_t \right)$$

The null hypothesis (  $H_0$  ) for each event is that the cumulative abnormal return (CAR) is equal to zero, indicating no significant impact on Tesla's stock price attributable to the event.

The event window is defined as [-2, +2] and [-5, +5] trading days to capture immediate reactions and potential information leakage or delayed effects, respectively. The estimation window spans 200 trading days ending 10 days prior to each event window, ensuring no contamination from event-related price movements. Cumulative abnormal returns (CARs) are calculated by aggregating abnormal returns across these windows for all seven events, with statistical significance evaluated using robust t-statistics and p-values. All analyses were conducted using R programming.

## 6. Empirical results

Table 4 summarizes the CARs for each event across the models and windows, along with the TSLA-BYD differential returns from the matching-firm approach.

Table 4. Impact of pension fund divestment announcements on Tesla's market value

No.	Events	Market Factor		Three-Factors Model		Matching Firm TSLA-BYD
		CAR [-2; +2]	CAR [-5; +5]	CAR [-2; +2]	CAR [-5; +5]	
1	AP7 Blacklisting	-0.02 (-0.25)	0.14 (-1.15)	-0.01 (-0.15)	0.15 (-1.35)	0.04 n/a
2	The Conflict Between Musk and Trump	-0.14* (-1.73)	-0.20 (-1.62)	-0.15** (-2.01)	-0.19* (-1.68)	-0.15 n/a
3	Lehigh County Pension (US) halt investments announcement	0.03 (-0.39)	0.00 (-0.02)	0.04 (-0.49)	0.00 (0.01)	0.01 n/a
4	KPA Pension (Swedish) divestment announcement	0.13 (-1.61)	0.11 (-0.91)	0.18** (-2.34)	0.15 (-1.32)	-0.05 n/a
5	Brunel Pension Partnership (UK) divestment announcement	-0.01 (-0.11)	0.22* (-1.91)	0.01 (-0.15)	0.27** (-2.41)	-0.02 n/a
6	AkademikerPension (Danish) divestment announcement	-0.05 (-0.66)	-0.04 (-0.37)	-0.05 (-0.60)	-0.02 (-0.16)	-0.02 n/a
7	ABP (Dutch) divestment announcement	0.05 (-0.61)	0.00 (-0.03)	0.06 (-0.68)	0.01 (-0.05)	-0.05 n/a

Note. \*, \*\*, \*\*\* indicate statistical significance at the 10, 5, 1% level respectively, robust t-value are reported in parentheses.

Event 2, the Musk-Trump conflict stands out with the strongest negative effects, corroborating media reports of a 14% single-day drop that erased approximately \$150 billion in market value. CARs are significantly negative in both windows under the market factor and three-factor models. The matching-firm differential (-0.15) further highlights Tesla's underperformance relative to BYD, likely reflecting fears of subsidy cuts and policy instability in a politically charged environment. This event amplified by Musk's role in the Department of Government Efficiency (DOGE) and subsequent resignation. It appears to have triggered a sharper market penalty, consistent with the literature on how CEO political risks compound governance concerns.

Event 4 demonstrates significant negative impacts, particularly under the three-factor model, where CAR reaches -0.18 in the shorter window, while the longer window yields -0.15, though insignificant. The market factor model also produces negative but insignificant CARs. As a Swedish fund emphasizing employee rights, this event likely amplified social ESG concerns, especially amid ongoing strikes at Tesla's Nordic facilities, resulting in a detectable short-term market sell-off. Similarly, Event 5 reveals mixed yet significant outcomes: while the market factor shows a negative CAR of -0.01 in the shorter window, the three-factor model in the longer window produces a significantly positive CAR of 0.27. This positive rebound may stem from the event coinciding with Tesla's strong Q1 earnings, potentially offsetting the UK fund's governance critiques and muting global market influence.

In contrast, several events elicited insignificant market reactions, highlighting varying degrees of investor anticipation or limited event salience. For Event 1, CARs are consistently negative but insignificant across models. Event 3 yields modestly positive but insignificant CARs, paired with a small positive matching differential of 0.01, which may reflect market indifference to a smaller U.S. fund amid broader EV sector positivity or concurrent production news. Event 6 shows negative insignificant CARs, likely attributable to the Danish fund's smaller scale or redundancy with prior ESG disclosures. Finally, Event 7 produces positive insignificant CARs despite a negative matching differential of -0.05, suggesting anticipation of the large European fund's action or overshadowing by early 2025 subsidy optimism.

To provide a robust check against industry-specific shocks, we employed a matching-firm approach, using BYD Company Limited as the benchmark for Tesla (TSLA). The matching-firm results reinforce a pattern of negative impacts for key events, with Tesla underperforming BYD in five out of seven cases, suggesting that the divestments and Musk-Trump conflict imposed unique burdens on Tesla beyond broader industry trends. Event 2 yields the largest negative differential of -0.15, underscoring Tesla's substantial underperformance against BYD. Event 4, Event 5, Event 6 and Event 7 show a negative differential, marking underperformance against BYD. Compared to BYD, Tesla's exposure to Musk's controversies and Western regulatory pressures appears to have amplified event-driven losses, highlighting the value of the matching-firm method in isolating idiosyncratic effects.

These patterns imply that while pension divestments signal ESG risks, their stock effects are often attenuated unless amplified by "surprise" elements, such as the Musk-Trump feud's ties to subsidy threats and governance instability. This underscores Tesla's vulnerability to executive-driven controversies, where political activism exacerbates social and governance lapses.

## 7. Conclusion

Using a multi-event study (CAPM, Fama-French models, BYD matching), we analyzed 2025 pension fund divestments and the Musk-Trump conflict's impact on Tesla's stock. Core results show mixed but mostly negative effects: the Musk-Trump conflict (over fiscal policies/subsidies) and Brunel Pension's divestment caused statistically significant negative cumulative abnormal returns (CARs), confirming markets penalize governance risks (CEO political activity threatening policy-linked revenue) and social risks (labor violations). Smaller fund divestments elicited weak/insignificant reactions, likely due to "event anticipation"—investors had already priced in ongoing divestment signals.

Our findings align with and extend prior work: they echo Krüger by showing negative ESG events (plus policy news) drive sharp downturns, while adding that CEO political risk amplifies ESG penalties (a "double shock") [15]. They support Carletti et al., as Tesla's subsidy reliance

deepened the Musk-Trump conflict's impact (14% stock drop on June 5, 2025) [17]. They also build on Dorfleitner and Zhang by showing overlapping ESG (divestments) and CEO political risks worsen downturns, filling the gap of isolated event focus [18]. Finally, they expand Flammer's "insurance effect" to "event continuity reduces surprise"—serial divestments weaken market reactions [14].

For investors: Strengthen ESG screening to include "leadership risk" and diversify to reduce key-person dependency. For EV/subsidy firms: Regulate CEO political behavior and proactively address labor risks. Limitations include potential information leakage, model sensitivity, and unmeasured media sentiment. Future research could integrate sentiment analysis, extend timelines, or expand samples to other EV/subsidy sectors.

In short, our study provides real-world evidence of how overlapping ESG and CEO political risks harm Tesla's stock, offering academic and practical guidance for ESG-driven market volatility.

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## Appendix 1. Elon Musk's involvement in U.S. politics

Elon Musk's deepening engagement in U.S. politics has raised governance concerns about conflicts of interest and policy exposure for Tesla. In 2022, Musk makes it clear and explicitly state that will vote for the Republican candidate. In 2024, Musk created and subsidize American PAC, and American PAC became the individual donor with largest support for Trump in the 2024 US presidential election. The total donation over 250 million US dollars. He also injected 19 million US dollars into Wisconsin supreme court election in 2025, with the intention of influencing key policies such as redistricting. In 2025, in the conflict with the Republican Party, Musk once attempted to launch a third party called "American Party", and frequently discussed this party in the media and on social platform in early 2025 advocating for breaking the opposition between the two parties. In November 2024, Musk once proposed to Trump the establishment of a federal "Government Efficiency Commission" (later named "DOGE"), and received a prompt response. At January 20th 2025, Musk was clearly defined as a "special government employee" and held the role of an advisor and leader. He advocated for integration of federal agencies and eliminate "waste" and even proposed that the institution finally should self-destruct. During Musk work in the DOGE, the first 100 days reduce the budget up to 160 million US dollars, including layoff of federal staff and reduction of DEI (diversity, equity, inclusion) programs. However, critics point out that this approach skip ethic reviews and the civil servant protection which means he might use government data for personal and company profit. At May 2025, Musk announce that he was officially resigned from his position at DOGE.

Elon Musk's highly visible behavior and posts on X (formerly Twitter) have created repeated reputational shocks that can translate into financial risk for Tesla through brand polarization, advertiser, partner reactions, and potential regulatory scrutiny. On November 16th 2023, Musk like and comment a post include endorsing antisemitic comments and sharing conspiracy theories, which damage some public and investor for the perception of Tesla and X. As reported by The Guardian. A similar pattern appeared on February 7th 2023, Musk's reputation for erratic behavior and essential workforce reduction may deter top talent to apply for a job at his company. Financially, such episodes are likely to show up as abnormal returns and volatility jumps, reflecting a higher risk premium and uncertainty around sales, policy exposure, and governance. In November 2021, Musk sets a user poll about selling 10% of his shares of Tesla and this event cause 5% drop on the Tesla stock price. This event illustrates how Musk's post can rapidly affect market capitalism. During late 2022, Musk devoted essential attention on Twitter so investors and analyst doubt Musk's distraction and reputational effect. Therefore, Tesla's stock price on 2022 drop to lowest point in recent years.