



ABSTRACT

A national-scale political event has a big impact on the country's economy. The most notorious political event in Indonesia is President and Vice President Election. This study is intrigued by a quest about whether that event impacted the stock market return. More specifically, did the event cause an abnormal stock return? To answer that curiosity, the authors took nine sectors of the Indonesia Stock Exchange as the research object. Each sector consists of 15 companies that are range from the small, medium, and large categories, based on market capitalization, debt/equity, revenue, and return on equity. This approach enables the authors to finally arrive at 135 units of analysis. The data is tested using the paired-samples t-test. This test reveals that there is no difference in abnormal returns before and after the 2019 President's Election. In other words, there is no effect of the 2019 Presidential Election on stock return.

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Research Article

Impact of a big political event on stock market: The 2019 Presidential Election case

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INTRODUCTION

An events that affect a company consist of two categories, namely external and internal events. A notorious external event, among others, is a political event. National-scale political events logically have a substantial impact on the country's economy.

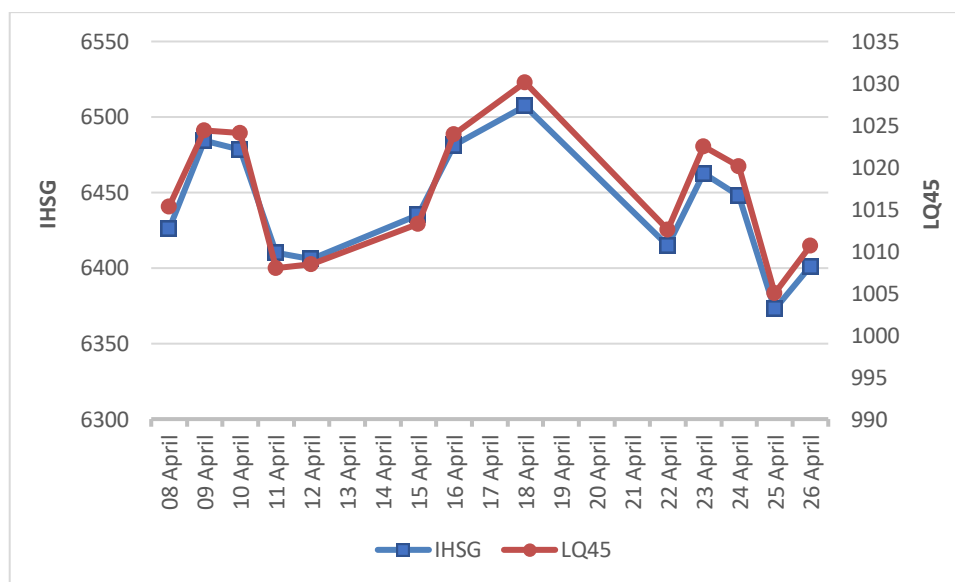
Concerning the 2019 Presidential Election, market reactions are expected to come before and after the event. Reported by CNBC Indonesia, Kevin (2019) stated, "On Thursday (11/4/2019) Jakarta Composite Index (JCI) fell by 1.05% to 6,410.17. This decline was assumed caused by the 2019 Presidential Election in a few days to come."

Yadika (2019), reported by the news site Liputan6.com stated, "The market opening on Thursday (4/18/2019) JCI rose to the level of 6,600. At 9:01 a.m. (GMT +7), JCI increased 2.17% to 6,622. ". This statement stressed that the market responded to the 2019 Presidential Election. There are other mixed statements opinions about the impact of that political event on stock prices, and a solid answer is required. This study aims to use a scientific way to approach to such an answer.

The presidential election becomes more interesting because after the election was held, precisely on April 18, 2019, CI and LQ45 were at the highest point throughout 2019. JCI moved up to 6,636.33 and LQ45 at 1,059.64.

The JCI and LQ45 movements before and after the presidential election is displayed as curve in Figure 1. Both have the same pattern. The JCI fluctuated around the closing price range of 6,372-6,508, while LQ45 was in the range of 1,005-1,030.

Figure 1
JCI and LQ45 charts for April 2019



Event study is an empirical research to determine the impact of an event on a company or market. Stakeholders utilize the information obtained from such a study. Semi-strong form hypothesis stated that publicly available information about a company's future have substantial impact on the stock price that lead to market efficient hypothesis (Asnawi & Wijaya, 2006: 103).

Event study can be applied both to internal and external information. In general, there are two indicators that are commonly used in such a study, namely: abnormal return and trading volume activity. Abnormal return is a way to measure the deviation between the expected return $E(r_i)$ with the actual return. Trading volume activity is intended to determine whether there is a significant increase in trading transactions during the event study.

LITERATURE REVIEW

An efficient market is a condition in which price reflects existing information, so that all parties have the same information and do not get abnormal returns. Market efficiency consists of three forms, namely: weak, semi-strong, and strong (Fama, 1970).

Capital market is also known for its anomalies. MacDonald (1976) defines market anomaly as a deviation from the currently accepted paradigm that is too broad to ignore, too systematic to be considered as random error, and too natural to accommodate a normative system. Financial theory, movements or events that cannot be explained using efficient market hypotheses are called financial market anomalies. Therefore the financial market anomaly is a situation, where the performance of a stock or group of shares deviates from the assumption of an efficient market hypothesis (Latif et al., 2011). Market anomalies can at least be divided into (Latif et al., 2011): (i) fundamental anomalies; (ii) technical anomalies; (iii) calendar or seasonal anomalies

In the financial markets, stakeholders can respond the news or events as a signal of business situation. Conceptually, signalling theory is about inequality or inequality of information, which can be resolved by utilizing parties that have more information, giving signals to other parties (Morris, 1987). Signalling theory is built on the premise that one party (the seller) has complete information, while the other party (the buyer) has information obtained from what the first party (the seller) wants to share (Nelson, 1970).

Spence (1973) says signalling theory as the one which explains how decision-makers respond to circumstances, where the incomplete and asymmetrical information is spread between parties who involved in a transaction. A signal is a form of communication for sellers and buyers to exchange information (Spence, 2002).

There are mixed results of event study. Akbar et al. (2019) examine the impact of the announcement of the 2019 election winners. They concluded that the event had a significant impact on abnormal return and trading volume activity on state-owned companies listed on the Indonesia Stock Exchange. This abnormal return can be caused by investor panic due to the presence of other events that reinforce the impact of the May 22.

Anggariani and Suaryana (2018), who investigated the impact of the issuance of government regulation to replace law number 1 of 2017, also found significant differences in abnormal return and trading volume activity in the banking sector listed on the Indonesia Stock Exchange. This result occurred after the investors assessing the information content of the event and though that, it will be followed by the improvement of corporate banking governance and subsequently increasing customer confidence. Chen et al. (2005) also suggested that there are abnormal returns in various political events, especially in the Taiwan stock exchange. Finally, they arrived to a conclusion that a political events contain 'information' that are sensitive to the political risks, especially in developing country stock markets.

Wibowo and Darmanto (2019) and Murtanu (2015) studied the Presidential Election effect on stocks listed in the LQ45 index. They concluded that, there were no differences in abnormal returns before and after the event. It shows that the event does not contain substantial information. Concerning different events, Ahmad and Utami (2019) found that there is no differences in abnormal returns during the Sya'ban, Ramadan, and Shawwal in

the period of 2012 to 2017. They said that there is no anomaly regarding Ramadan Effect in Indonesia. The reason is Ramadan is an annual event. The investors have anticipated the information or any impact that might be occurred.

Sajid Nazir et al. (2014) obtained similar results in their study related to political events in Pakistan. Again, they found no differences in abnormal returns in the Pakistan stock exchange. Pakistanis accept political instability as part of their lives because of the long and frequent political turmoil in the country.

The above studies mixed results prevent the authors from making the hypothesis. Therefore, up to this point, this study has no temporarily conclusion about the event' effect.

RESEARCH METHOD

The units of analysis are companies listed on the Indonesia Stock Exchange (IDX). They are from nine sectors, namely basic industry & chemistry; agriculture sector; consumer goods; finance; utilities, and transportation; mining; infrastructure, miscellaneous industry; property, real estate, and building; as well as and trade, service and investment. This study measures the Cumulative Abnormal Return (CAR) two days before and two days after the 2019 Presidential and Vice President Elections. This study uses the event study method, where testing can be done by paired sample t-test.

This study uses the cumulative abnormal return (CAR) variable to measure the difference of stock price changes before and after the 2019 Presidential and Vice President Election events. The formula for calculating abnormal returns can be stated as follows (Asnawi & Wijaya, 2006: 184):

$$AR = R_i - E(R_m)$$

The formula that can be used to get cummulative abnormal returns is as follows:

$$CAR_{it} = \sum_{i=1}^n AR_{it}$$

The sampling criteria are as follows:

1. Shares were listed on the IDX in the April 2019 period during the 2019 Presidential Election period.
2. The selected stocks are from Agriculture sector; Basic Industry & Chemistry; Consumer Goods; Finance; Infrastructure, Utilities, and Transportation; Mining; Miscellaneous Industry; Property, Real Estate, and Building, and Trade, Service and Investment.
3. The shares are classified based on market capitalization, DER, Revenue and ROE.

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4. As many of 15 units of analysis are selected from each sector, five from the highest, five from the mediocre, and five from the lowest value categories.
5. Stock price is counted when the trading volume reach a sufficient level. Price is not counted when shares are not actively traded.

RESULT AND DISCUSSION

Descriptive Analysis

The descriptive analysis provides an overview of the characteristics of each data. The variable used in this study is cumulative abnormal return before and after the 2019 Presidential Election. There are four criteria used in tis study as can be seen in Table 1.

Table 1
Descriptive Analysis of Data Mean Cumulative Abnormal Return

Sector	Criteria							
	Market Capitalization		Revenue		ROE		Debt/Equity	
	Mean (%)	Mean (%)	Mean (%)	Mean (%)	Mean (%)	Mean (%)	Mean (%)	Mean (%)
	Before	After	Before	After	Before	After	Before	After
Agriculture	-1,95	0,29	-1,28	0,27	-1,32	-0,06	-1,25	0,75
Basic Industry & Chemicals	1,87	-1,85	0,10	-0,30	1,03	-0,70	-0,10	0,25
Consumer Goods	0,07	-2,15	-0,55	-0,59	-0,58	-0,86	-1,44	0,70
Finance	-0,98	0,51	-1,37	1,60	0,48	-0,70	-0,89	0,57
Infrastructure, Utilities, & Transportation	-0,71	1,1	-1,1	2,45	-2,94	5,01	-0,87	-0,06
Mining	-2,04	0,40	-2,16	-0,10	-1,74	-0,88	-4,16	1,25
Miscellaneous Industry	-2,01	3,05	-0,03	2,31	-1,92	3,65	-1,61	2,01
Property, Real Estate, and Building	0,52	1,85	2,55	1,43	0,35	1,17	0,63	0,52
Trade, Service, and Investment	-1,00	-1,34	-2,48	1,66	-1,69	1,75	1,02	0,54

As displayed in Table 1, the average of abnormal return data before and after the 2019 Presidential Election in nine sectors, in general, has positive changes (except for the basic industry & chemical and consumer goods sectors). It means that the 2019 Presidential Election event contains information that is responded to the as good news by market participants or investors.

Investors perceived the 2019 presidential election as a good news and positively impact the Indonesian economy. For the government, this political event will be followed the increase of investment grade level. Investors are more confidence wirth the political situation and further create capital inflow from local or foreign investors. The issuer (the firm) will be impacted positively by this capital inflow. Of course this development is a good news for the issuer. Conducive conditions during the presidential election create a good impression about the goodness of business climate in Indonesia that create a positive sentiment about investment.

Miscellaneous industry sector received the biggest return during the last three elections in 2009, 2014 and 2019. In 2019, this sector obtained an average abnormal return of 4.15%.

This sector is sensitive to the policies issued by the government. This sensitivity is caused by the domination of companies in machinery, automotive, textile, and electronics. Their major role in national economic growth motivates the government to give substantial support to the sector. In addition, in this sector, Indonesia is still the main target of multinational company.

After the president election, the investors wait for the announcement of the winner. At the same time, external factors grew to a comfortable direction, such as the termination of the trade war between the US and China.

During the study, infrastructure, utilities, and transportation sectors obtained an average abnormal return of 3.53%. Investors predict that, whoever win the election, this sector still has high growth because, in Indonesia, there is still wide open development of infrastructure and property projects. In addition, internet traffic for various purposes increases during the election. This development contributes positively to the three sectors.

Mining sector had an average abnormal return of 2.69%. As we know, this sector, among others, is very sensitive to the government policies or regulations. However, the opportunity to invest to this sector is still wide open because of enormous natural resources. The attractiveness of this sector also related to the fact that the two candidates have a positive perspective on mining sector. Therefore, whoever wins the election, this sector will get positive business atmosphere.

The sectors that experienced the negative changes in abnormal returns were the basic industry & chemical sector. Both had an average change of -1.37%. Consumer goods experienced the change of -0.10%. These two sectors have close links. Basic industry & chemical sector produces materials that further used as raw materials of consumer goods. These two sectors are also flooded by the issuers that have a large market capitalization. In an event such as the presidential election, that may create changes in government policy and political instability, investors tend to take profit when waiting for fixed results of the election.

Other sectors, namely agriculture; property, real estate and building, as well as trade, service and Investment, have its own story regarding the presidential election. Strategy and policy promoted by each candidate reflect the more flexible atmosphere for business, such optimization of agricultural products distribution, the simplification of investment procedures, and the development of tourism sector. Finance sector is not touched by the presidential election, however, positive political development after the event created good atmosphere for this sector.

Mean Difference Tests

In general, there is no difference in abnormal returns before and after the 2019 Presidential Election in nine sectors, except in the finance and mining sectors in the revenue and market capitalization categories. It can be due to the opportunity for prices to be corrected before the 2019 Presidential Election, which results in the different test results above being insignificant. At least four factors cause the finance sector in the revenue category to have significantly different test results. First is the financial sector is the highest growth sector. A growing company is a positive and attractive indicator for investors. As a result, stocks will certainly become liquid, namely increased trading activities that trigger price changes. Second, the finance sector has the largest market capitalization. Large market capitalization

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generally describes companies that are large, strong, stable, and interested by investors. Also, companies that have large capitalization are usually included in selected indexes. One of the most preferred indexes in Indonesia is LQ-45. It is considered strongly of investors when making investment decision.

Third, the policy to keep (low rate) the benchmark interest rate by the Federal Reserve Bank. Returns are an important thing for investors; thus, investment products that offer higher returns will be interesting, although they must be adjusted according to risk preferences. The low-interest rate of the Federal Reserve, certainly has an impact on the world economy, especially on investment activities. The Federal Reserve is a reference for other countries central banks and the world economy. And fourth, the policy of Bank Indonesia Interest rate. It certainly makes investors change their investment in investment products that provide better returns, such as stocks.

For the mining sector, the factors that cause the test results are significantly different as follows: first, the exchange rate. The volatility of the value of the Indonesian currency, which tends to decline, is one of the considerations for investors in investing in mining companies. It will affect the export volume of mining products, costs, as well as the production process, and finally, the company's revenue and profits. Second, the export volume of mining products. This large export volume is closely related to company revenue, so it becomes a consideration for investors. Third, global commodity prices. Changes in global commodity prices are very sensitive for the mining sector in particular. Fourth, a trade war between the United States and China. Economic uncertainty due to the trade war influences companies in the world and the country's economy. It has an impact on the business as a whole. Investors will re-considering investing in the mining sector and other sectors affected by the trade war.

Table 2
Paired different test results in various sectors and criteria.

Sectors	Criteria			
	Market Capitalization	Sales Revenue	Return on Equity	Debt/Equity
Agriculture	0.109	0.282	0.373	0.152
Basic Industry & Chemicals	0.152	0.626	0.536	0.789
Consumer Goods	0.266	0.987	0.873	0.332
Finance	0.161	0*	0.645	0.154
Infrastructure, Utilities, dan Transportation	0.33	0.409	0.079	0.491
Mining	0.016*	0.038*	0.355	0.171
Miscellaneous Industry	0.109	0.113	0.107	0.266
Property, Real Estate, & Building Construction	0.571	0.508	0.631	0.949
Trade, Service, & Investment	0.834	0.219	0.335	0.751

Note: * Significant on $\alpha = 0.05$

The signalling theory, which states that there is inequality of information (asymmetric information) that occurs between investors, apparently does not function in the 2019 Presidential Election. Investors have the same information related to the 2019 Presidential

Election. Rational approach in analyzing the event-related leads to the indifference of abnormal returns.

The above explanation has several points, including that Indonesian investors are rational in responding to political events mentioned above. Investors view political events, in this case, the Presidential Election has relation with the overall performance and prospects of a company. Investors are more interested in the company's fundamentals than external factors that are not directly related to the company.

From the government and investor side, this is a good thing, where investors in Indonesia who invest in the capital market are rational and mature in making investment decisions. From the issuer's point of view, this is also a good thing because the company's value in the market is not easily influenced by events or information that is not relevant to the company itself. Investors are more interested in overall company fundamentals.

The results of this study reinforce similar studies by (Murtau, 2015); for the 2014 presidential election events; (Kusumayanti and Suarjaya, 2018) as well as (Safitri, 2017) which strengthen the results of the study stating that the form of market efficiency in Indonesia is semi-strong which means that prices in the capital market in Indonesia reflect information that has been published so that financial market anomalies do not occur. This study also supports research (Sajid Nazir et al., 2014), which states no difference in abnormal returns on the Pakistan stock exchange. Political events often occur in Pakistan that is considered part of the lives of Pakistanis. It caused an undue reaction to the Pakistan stock market.

CONCLUSION

The 2019 Presidential Election events have no influence on the stock market. The investors are rational and relied more on the fundamental aspects instead of issues related to the event.

The author propose some suggestions, they are, first, the investors should relied more on company fundamentals in facing a national-scale political events. Second, the government should have no worry about capital market instability due to the national-scale political events. Further research is expected to conduct the same study in the finance and mining sector.

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