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How the stock market reacts on presidential inauguration and cabinet announcement? A case study of Indonesian mining and energy industries

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Abstract
This study investigates the stock market reaction of Indonesia's mining and energy sectors, represented by LQ45 index constituents, toward the 2024 presidential inauguration and cabinet announcement. Using an event study methodology with an event window of t-7 to t+7, the research measures market responses through abnormal returns based on the market-adjusted model. Results show that the pre-inauguration period is characterized by predominantly negative Average Abnormal Returns (AAR) and Cumulative Abnormal Returns (CAR), indicating heightened uncertainty surrounding the incoming administration. On the inauguration day, both indicators turn positive, reflecting temporary optimism regarding political stability and policy continuity. However, the post-event window displays volatility, with sharp positive abnormal returns on certain days (e.g., t+3) but declines on others (e.g., t+2). Most t-statistics are statistically insignificant, suggesting that the inauguration did not generate strong or persistent market reactions.

Keyword: Stock Market, Presidential Inauguration, Abnormal Return

Abstrak
Studi ini meneliti reaksi pasar saham sektor pertambangan dan energi Indonesia, yang diwakili oleh konstituen indeks LQ45, terhadap pelantikan presiden 2024 dan pengumuman kabinet. Menggunakan metodologi studi peristiwa dengan jendela peristiwa t-7 hingga t+7, penelitian mengukur respons pasar melalui pengembalian abnormal berdasarkan model yang disesuaikan dengan pasar. Hasil menunjukkan bahwa periode pra-pelantikan ditandai dengan Pengembalian Abnormal Rata-Rata (AAR) dan Pengembalian Abnormal Kumulatif (CAR) yang didominasi negatif, menunjukkan ketidakpastian yang meningkat seputar administrasi yang masuk. Pada hari pelantikan, kedua indikator tersebut berubah positif mencerminkan optimisme sementara terkait stabilitas politik dan kelangsungan kebijakan. Namun, jendela pasca-peristiwa menampilkan volatilitas, dengan pengembalian abnormal positif yang tajam pada hari-hari tertentu (misalnya, t+3) tetapi menurun pada hari-hari lain (misalnya, t+2). Sebagian besar statistik-t secara statistik tidak signifikan, menunjukkan bahwa peresmian tidak menghasilkan reaksi pasar yang kuat atau terus-menerus.

Kata kunci: Pasar Saham, Pelantikan Presiden, Pengembalian Abnormal

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1. Introduction

Political events have a profound influence on a country's stability and determination of a new direction of the government for the following periods, it is always been an attractive for both domestic and foreign investor due to their potential impact on investment risk and oportunities (Kirana & Sembel, 2019). Understanding political issues become one of the ways to minimize investment risk. Even thought, not all political issue influenced capital market.

The share price and returns in the capital market are shaped by multiple determinants, including firm-specific fundamentals, macroeconomic indicators, market-wide risk factors, and information shocks (Fama, 1970; Fama & French, 1993; Chen, Roll & Ross, 1986). Moreover, political events and policy changes can significantly influence investor expectations and risk perceptions, particularly in emerging markets such as Indonesia (Bekaert, Harvey & Lundblad, 2006; Jogiyanto, 2015). Luechinger and Moser (2012) observed that the stock market in United States was reacted to announcements of political appointments from the private sector and corporate appointments of the government officials. Similarly, the presidential election in USA also affected the return flow of stock on the New York Stock Exchange (Obradovic & Tomic: 2017). In the Indonesian context, Alfisah (2020) note that the announcement of economic package XVI affected stock returns in the mining sector. These findings underscore the interconnectedness between political events and market behavior, particularly in emerging economies country like Indonesia.

This study is grounded in the event study methodology, a framework widely employed to explain market's reaction to specific events by analyzing abnormal return. Additionally, the adaptive expectations theory provides a conceptual lens to interpret investor behavior theory event study. According to this theory, investor expect future return based on future experiences and adjust these expectations using al available information to create optimal forecast. This theoretical perspective help to explain the market's dynamic respond to the political issues.

Although prior research has explored the relationship between political events and stock market reactions, several gaps remain. For instance, Hidayat (2018) found that " Gerakan Super Damai" rally on December 2, 2016 affected abnormal return in the industrial and chemical sectors. Similarly, Dimyati and Kusuma (2024) reported abnormal returns in the banking sector the 2024 presidential election announcement. Safira and Arsjah (2024) also identified variations in abnormal returns and trading volume for 924 companies listed on the Indonesia Stock Exchange (IDX) during the same period. However, other studies such as those by Kirana and Sembel (2019) found no significant differences in average abnormal returns surrounding presidential elections from 2014 to 2019. Sudarmo et al. (2024) and Budastra et all (2022) observed a similar absence of abnormal return of trading volume changes around the announcement of the 2019 Indonesia Maju Cabinet and reshuffle cabinet volume I and II. These mixed findings highlight a critical gap: while there is evidence of market

reactions to political events, the results are inconsistent. Further, specific dynamic within certain industries such as mining and energy remain underexplored.

The Indonesian presidential inauguration and cabinet announcement in 2024 represent a unique context to study stock market reactions, particularly in the mining and energy sectors. The mining and energy industries play a critical role in Indonesia's economic structure, making them highly relevant for examining market reactions to major political events. These sectors contribute substantially to national GDP, export revenues, and fiscal income, positioning them among the country's most strategic economic pillars (PwC Indonesia, 2023). Indonesia is also one of the world's leading producers of coal, nickel, and tin—commodities that are essential to global manufacturing and energy-transition supply chains—which further elevates the industries' global significance (USGS, 2023; IEA, 2022). In the capital market context, mining and energy companies represent some of the largest market capitalizations on the Indonesia Stock Exchange, thereby exerting considerable influence on overall market movements (IDX Annual Report, 2024). Moreover, these industries are highly sensitive to government policies such as mineral export bans, down streaming mandates, environmental regulations, and licensing reforms, which have repeatedly been shown to trigger significant adjustments in firm value and investor behavior (Agustina et al., 2020; Hilson & Potter, 2005). Environmental and sustainability concerns further heighten the sector's market responsiveness, as regulatory tightening or policy uncertainty often leads to increased volatility in mining-related stocks (OECD, 2023). Given these economic, regulatory, and environmental dynamics, the mining and energy sectors provide a robust context for assessing how political transitions, such as the 2024 presidential inauguration and cabinet announcement shape investor sentiment and market performance in Indonesia.

This study aims to investigate the reactions of the Indonesian stock market, with a focus on abnormal returns in the mining and energy industries, during the presidential inauguration and cabinet announcement of 2024. By doing so, it seeks to contribute to the existing body of knowledge by providing fresh insight into how political transition influence capital market dynamic in Indonesia.

2. Literature Review

The Theory of Rational Expectation.

During the period of 1950s and 1960s, economist regularly viewed expectation were only formed from past experiences. It is called adaptive expectation, suggest that changes in expectations will occur slowly over time, as a variable data evolve. This theory has been faulted, currently people use not only one information or past data on single variable. In addition, people often change their expectations quickly in the light of new information. To address the validity of adaptive expectation, a new theory called rational expectation was developed by John Muth as an alternative theory of expectation. Even though, a prediction based on rational expectation using all available information may not always be perfectly accurate (Miskhin, 2018).

The efficient market hypothesis assumes that securities prices in financial market fully reflect all available information (Miskhin, 2018). According to Husnan (1996), efficient market was divided into three categories. First, weak form efficiency which represent a condition where prices of securities reflect all the information available in the past. Second, semi strong efficiency where the price of securities are not only represent past price but as well as all published information. Third, strong form efficiency which not only represent all published information but also fundamental information of the company and economy condition.

Risk

Risk was categorized into two types, which are systematic and unsystematic risk. According to Sofat and Hiro (2016), systematic risk mainly consists of three forms namely interest rate risk, market risk and purchasing power risk which are arising from uncertain economic conditions and is same for all the segment of the industry. On the other hand, unsystematic risk is related to uncertainties that are specific to an individual security issued by a particular company which may come from the management of the company, company's corporate restructuring failures, unproductive production system, ineffective marketing and others.

Positive abnormal return on corporate appointment and confirm that in a country with a strong institution conflict of interest was matter (Luechinger & Moser, 2012). A positive abnormal return also occurred in newly initial public offering of accepted oil and chemical firm in Iran (Filsaraei et al, 2013). Daada (2016) investigated the abnormal return on Rating announcement Tunisian stock exchange and found that the negative rating with downgrade note was associated to negative abnormal return. Further, Ahmed (2018) suggested that conventional equity markets of developed countries prove more sensitive to political uncertainty than do their Islamic counterparts. On the other hand, in developing countries, political risk tend to have a substantial effect on both conventional and Islamic markets.

In Indonesia, numerous studies have examined the relationship between presidential elections and stock market movements (Utami & Qoyum, 2020; Kirana & Sembel, 2019; Putri et al., 2020; Khanifah et al., 2021; Qoyum et al., 2017; Zulfikar & Mayvita, 2017). Utami and Qoyum (2020) analyzed abnormal returns surrounding the 2019 general election using the JII index and found that, for investors in the Islamic capital market, the announcement of the elected president served as the most influential event shaping expectations of economic conditions for the next five years. On the other hand, when examining a different index—the LQ45—the same study and related works observed no significant differences in market reaction before and after the election itself, but detected significant changes following the announcement of the election results (Kirana & Sembel, 2019; Putri et al., 2020; Khanifah et al., 2021).

Difference abnormal return occurred on industry and chemical sector around Aksi Damai 2012 (Hidayat, 2018). abnormal return also occurs on mining sector around Rusa vs Ukraine war (Nugraha et al (2024). Abnormal return was occurred during the reshuffle Working Cabinet (Kabinet kerja) volume I and II on companies listed in LQ45

and Jakarta Islamic Index (Rizal, 2017; Hatmawati, 2017; Hatmanti & Sudibyo, 2017). On the other hand, Saputri and Setiawati (2023) observed market reaction during the announcement of Indonesia Maju Kabinet. The finding indicates that there are no different abnormal return and trading volume activities during the periods. Budastara, et al (2022) found there are no different in average abnormal return and trading volume activities around the announcement of reshuffle cabinet Indonesia Maju volume I and II. Based on the previous research, we posit the hypotheses regarding the relationship between presidential inauguration and cabinet announcement to stock markets before, after and during the presidential inauguration.

3. Methodology

To investigate the reaction of stock market around political event, this study used event study methodology. Event study is one of the methodologies that can be used to measure semi strong market efficiency to test how quickly stock price adjust to significant economic events (Reilly and Brown, 2009). According to Jogiyanto (2015), event study is a study of market reaction to an event with information published as an announcement. An event study can be employed to assess information originating from both internal and external sources. In practice, two key indicators are commonly utilized in this method: abnormal return and trading volume activity.

Abnormal return represents the difference between the return that investors anticipate and the return that is actually realized. Trading volume activity (TVA) is typically used to identify whether there is a notable rise in trading activity during an event window. However, this study focuses solely on abnormal returns to capture the stock market's reaction to the presidential election, as changes in stock prices can be assessed through the measurement of abnormal returns (Blau et al., 2019).

According to Jogiyanto (20215), following are the steps to calculate abnormal return:

First, finding the value of actual return ($R_{i,t}$), to determine the comparison between today's stock price with the previous stock price, by the formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

Where:

$R_{i,t}$ = actual return of stock i at time t
$P_{i,t}$ = stock price at time t
$P_{i,t-1}$ = JII and LQ45 at time t-1

Second, calculating the daily market return ($R_{m,t}$), this study used Jakarta Composite Index (JCI) data as daily market return, by the formula:

$$R_{m,t} = \frac{JCI_t - JCI_{t-1}}{JCI_{t-1}}$$

Wheres:

$R_{m,t}$ = market return at time t

JCI_t = JCI at day t
JCI_{t-1} = JCI at day t-1

Third, calculating abnormal return ($AR_{i,t}$), to determine the difference between actual return and expected return, by the formula:

$$AR_{i.t} = R_{i.t} - E(R_{i.t})$$

Where:
$AR_{i,t}$ = Abnormal return of the stock i at time t
$R_{i,t}$ = Actual return of the stock i at time t
$E(R_{i,t})$ = Expected return of the stock i at time t ($E(R_{i,t}) = R_{m,t}$)

The fourth step, calculate the average abnormal return (AAR_t), to determine the average abnormal return of all stocks at time t, by this formula:

$$AAR_t = \frac{\sum_{t=1}^{n} AR_{i,t}}{k}$$

Where:
AAR_t = average abnormal return of all stock at time t
$AR_{i,t}$ = abnormal return at time t
k = number of sample stock on day t

The fifth step is calculating the accumulated abnormal return (ARTN) or cumulative abnormal return (CAR) to describe all abnormal returns during the event date. It can be calculated by the formula:

$$CAR = \sum_{t=1}^{n} AR_{i,t}$$

Where:
CAR = cumulative abnormal return
$AR_{i,t}$ = abnormal return of stock t during the observation period

The sixth step is calculating the accumulated average abnormal return or cumulative average abnormal return (CAAR), which can be calculated by summing up the cumulative abnormal return divided by the number of populations, by the formula:

$$CAAR = \frac{1}{k}\sum_{t=1}^{n} CAR_{i,t}$$

Where:
CAAR = average cumulative abnormal return
$CAR_{i,t}$ = cumulative abnormal return of stock i at time t
k = number of sample stock on day t

The seventh step, calculate standard error estimation (KSE) by using market adjusted model method with the formula:

$$KSE_t = \sqrt{\frac{\sum_{i=1}^{k} (AR_{i,t} - AAR_t)^2}{(k-1)}} x \frac{1}{\sqrt{k}}$$

Where:

KSE_t = Standard error estimation on day t in the event period
$AR_{i,t}$ = abnormal return of i in stock for day t in the event period
AAR_t = average abnormal return of i in stock for day t in the event period
k = number of stock samples

The last step is calculating the parametric statistics test. This test uses a t-test, by comparing t-count with t-table. This test has the purpose of seeing the significance of the average abnormal return in the event period. To test the hypothesis t-count can be obtained by the formula:

$$T_{Statistics} = \frac{AAR_t}{KSE_t}$$

Where:

AAR_t = Average abnormal return on day t
KSE_t = Standard error estimation on day t

To investigate the market reaction on presidential inauguration and cabinet announcement, this study exercise mining and energy industries listed in LQ-45 during the estimated period. This study used data from yahoo finance. The detile industries can be seen in Tabel 1.

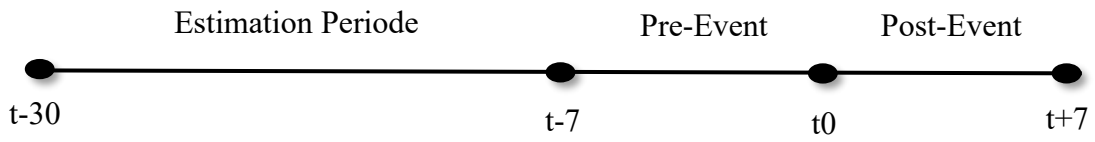
Tabel 1. List of Stock at LQ45 Index

No.	Code	Energy and Mining Sector
1.	ADRO	PT Adaro Energy Indonesia Tbk
2.	AKRA	PT AKR Corporindo Tbk
3.	AMMN	PT Amman Mineral Internasional Tbk
4.	ANTM	PT Aneka Tambang Tbk
5.	BRPT	PT Barito Pacific Tbk
6.	ESSA	PT ESSA Industries Indonesia Tbk
7.	HRUM	PT Harum Energy Tbk
8.	INCO	PT Vale Indonesia Tbk
9.	ITMG	PT Indo Tambangraya Megah Tbk
10.	MDKA	PT Merdeka Copper Gold Tbk
11.	MEDC	PT Medco Energi Internasional Tbk
12.	PGAS	PT Perusahaan Gas Negara Tbk
13.	PGEO	PT Pertamina Geothermal Energy Tbk
14.	PTBA	PT Bukit Asam Tbk

This study uses closing stock price. Research period was taken 7 days before and after the presidential inauguration and cabinet announcement. This study uses daily closing stock prices to measure market reactions using the event study methodology. We select an event window from t-7 to t+7 around the presidential inauguration and cabinet announcement to capture anticipatory market movements before the event and immediate price adjustments after the event. Several previous studies in event study literature adopt short event windows such as ±7 trading days to isolate the market reaction around discrete events and reduce the influence of unrelated information shocks (e.g., Jamaludin et al., 2018; Setiyawan et al.; 2019). These studies demonstrate that a ±7 window captures both pre-event anticipation and post-

event adjustment without extending the period where confounding factors may bias results.

Short-horizon windows such as ±7 days are widely used in stock market event studies because they help isolate the effect of the specific event from confounding information and noise that typically accumulate over longer horizons, reducing bias in abnormal return estimation. Short event windows are also consistent with the efficient market hypothesis, which assumes that market participants quickly incorporate publicly available information into security prices, thereby making longer horizons less informative for isolating the event effect (Jamaludin et al, 2028).



4. Results and Discussion

Tabel 2. Summary Findings

Periode	CAR	AAR	CAAR	KSEt	t-Statistics
t-1	-0.23970	-0.01712	-0.01712	0.036276	-0.47197
t-2	0.37484	0.026774	0.026774	0.050987	0.52512
t-3	0.03700	0.002643	0.002643	0.009014	0.293232
t-4	-0.17954	-0.01282	-0.01282	0.011426	-1.12239
t-5	-0.00820	-0.00059	-0,00059	0.010055	-0.05826
t-6	-0.14324	-0.01023	-0.01023	0.007896	-1.29584
t-7	-0.48624	-0.03473	-0.03473	0.044808	-0.77513
t-0	0.57463	0.041045	0.041045	0.064701	0.634374
t+1	0.15887	0.011348	0.011348	0.008105	1.400078
t+2	-0.86696	-0.06193	-0.06193	0.097863	-0.63278
t+3	2.47070	0.176478	0.176478	0.33705	0.523597
t+4	-0.13759	-0.00983	-0.00983	0.005608	-1.75236
t+5	-0.03491	-0.00249	-0.00249	0.010441	-0.23879
t+6	-0.03298	-0.00236	-0.00236	0.007612	-0.30946
t+7	0.14210	0.01015	0.01015	0.010456	0.970736

The data was analyzed using average abnormal return (AAR), cumulative abnormal return (CARR), and t-statistic. A t-test was conducted by comparing the t-statistics with the t-table value at 5% significant level. The impact is reflected in the calculation of the average abnormal return, with the results presented in Tabel 2,

The stocks from the mining and energy sectors, which are considered as LQ45 index had remarkable changes during the inauguration of the new Indonesian president in 2024. During the observation period, leading up to the inauguration (t-7 to t-1) a noticeable negative trend not only in Cumulative Abnormal Return (CAR) but also the Average Abnormal Return (ARR) as exhibited that the CAR was at -0.48624 on t-7 and 0.23970 on t-1. This pattern captures investor reaction and uncertainty ahead of the inauguration, more likely influenced by cautious investor sentiment over

the incoming administration's policy direction, market shifted on inauguration day (t0), displaying a positive response to CAR rose to 0.57463 and ARR to 0.041045. It reflects a primary concern for investors assessing potential risks and opportunities towards the governmental transition. This uncertainty is also consistent with the findings of Obradovic and Tomic (2017), who discovered that U.S. presidential elections affect the flow of stock returns on the New York Stock Exchange. This response mirrors Luechinger and Moser's (2012) findings that political appointments in countries with strong institutions can trigger positive abnormal returns. In Indonesia, such stability is particularly important for investment in strategic sectors like mining and energy.

Subsequent to the inauguration, stock movements became more fluctuating. There was a significant increase on t+3 with CAR reaching 2.47070 and ARR at 0.176478, indicating powerful buying interest in stocks within this sector. However, on other days, such as t+2, CAR declined to -0.86696 with AAR at -0.06193, suggesting volatility driven by market speculation over the initial policies of the new administration. Nevertheless, the t-statistics for most periods showed limited significance, indicating that not all abnormal return changes could be considered statistically meaningful.

However, the optimism was short-lived. Post-inauguration movements were volatile, as CAR dropped to -0.86696 on t+2 (AAR -0.06193), indicating speculation over new policies, but rebounded strongly on t+3 (CAR 2.47070, AAR 0.176478), indicating renewed buying interest. Despite these swings, low t-statistics for most periods suggest limited statistical significance, implying that abnormal return changes were not consistently meaningful. This suggests that investor may not view 2024 inauguration as major price-moving in the mining and energy sectors. Further, this reaction may be overshadowed by other contemporaneous macroeconomic factors. Another plausible explanation for the low and mostly insignificant abnormal returns observed in this study may be explained by the elected president's repeated campaign statements emphasizing policy continuity with the previous administration. Prior studies show that political events generate significant market responses primarily when they involve policy uncertainty or unexpected changes (Luechinger & Moser, 2012; Pastor & Veronesi, 2013). When political leaders commit to continuing existing economic programs, uncertainty declines, reducing the likelihood of large abnormal returns (Bialkowski et al., 2008; Santa-Clara & Valkanov, 2003). This also helps explain why our findings differ from Kirana and Sembel (2019), whose study focused on elections with higher perceived uncertainty.

The findings of this study diverge from some earlier works, including Kirana and Sembel (2019), who reported statistically significant abnormal returns around Indonesian political events. Several factors may explain this difference: 1) Nature of the Political Event. Kirana and Sembel (2019) examined elections, which often generate stronger market reactions due to uncertainty in leadership outcomes. In contrast, inaugurations typically carry less uncertainty, as results are already known. 2) Sectoral Sensitivity. Their study covered a broader market scope, whereas this research focuses specifically on mining and energy sectors that may be less sensitive

to ceremonial political events and more reactive to regulatory announcements. 3) Market Conditions at the Time of the Event Differences in macroeconomic conditions, global commodity prices, or investor sentiment could dampen the abnormal effects measured in this study. Overall, the findings indicate that while presidential inaugurations can influence short-term stock market behavior, their effects are often unpredictable, reinforcing the need for long-term analysis of political events on capital markets (Jogiyanto, 2015).

5. Conclusion

This study examined the response of Indonesia's stock market, particularly mining and energy sector stocks within the LQ45 index, during the 2024 presidential inauguration and cabinet announcement. Results indicate that political transition events exert a measurable yet mixed influence on abnormal returns. During the pre-inauguration period (t-7 to t-1), both CAR and AAR trended negatively, reflecting uncertainty about the new administration's policies. On the inauguration day (t0), however, market sentiment shifted positively, suggesting optimism regarding political stability and confidence in economic continuity.

In the post-inauguration window, market reactions were volatile. Abnormal returns rose sharply on certain days (e.g., t+3), possibly driven by renewed buying interest or beneficial policy signals, while other days (e.g., t+2) experienced corrections tied to speculation over policy direction. Nevertheless, most t-statistics lacked statistical significance, underscoring that while political events affect investor sentiment, their effects are temporary, sector-specific, and not uniformly predictable.

Beyond empirical observations, the findings offer several theorerical implications. First, the results reinforce the Political Uncertainty Theory, which argues that markets react strongly only when policy direction is unpredictable. In this case, the newly elected president's commitment to continue major programs of the previous administration likely reduced uncertainty, resulting in muted and statistically insignificant abnormal returns. Second, the study supports the predictions of the Efficient Market Hypothesis (EMH), where political events that provide limited new information, such as a predictable inauguration do not trigger substantial abnormal price movements. Third, the findings align with the policy-continuity perspective in political finance, which suggests that markets respond more strongly to anticipated policy changes than to ceremonial political milestones.

Overall, the study underscores that presidential inauguration, particularly those characterized by policy continuity, exert limited and short-lived influence on sectoral stock performance. These insights suggest that future research should integrate broader political–economic variables, deeper sectoral analyses, and longer event windows to better capture the nuanced dynamics of political events on capital markets.

Political transitions often present both opportunities and challenges, particularly in highly exposed sectors, such as mining and energy, where policy directions are particularly vulnerable. Investors may get the expected returns from adopting cautious

yet proactive trading strategies during these periods to optimize returns while managing volatility. At the same time, policymakers have a huge responsibility in stabilizing the condition by ensuring timely communication of economic and energy policies. Strengthening institutional credibility and transparency is also imperative for sustaining investor confidence and encouraging long-term capital inflows.

Future research may extend the event window and incorporate additional in-demand variables, such as trading volume, sectoral heterogeneity, and macroeconomic indicators to provide a more comprehensive understanding of the persistence and magnitude of political event impacts. Comparative analyses across sectors or between conventional and Sharia-compliant equities would further enrich insights into heterogeneous investor behavior. For corporate management in mining and energy sectors, proactive investor relations, transparent guidance on the potential implications of policy changes, and strengthening operational resilience are essential strategies to navigate market uncertainty during governmental realignments.

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