

## The State of the Stock Market before and After the Government Indonesia 2019-2024

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### Abstract

*The purpose of this research is to find out about stock returns, stock risk, return expectations and the correlation coefficient on LQ 45 before and during the 2019-2024 government, to find out the differences in risk in LQ 45 stocks before and during the 2019-2024 government. The research method carried out in this study was a different test using the excel tool, and the results showed that stock returns, risk, at the time before the research were higher than during the 2019-2024 government, while research the correlation coefficient the 2019-2021 government has a stronger correlation coefficient, which means that there is a strong relationship between variables.*

### Keywords

Government; return expectations; stock returns; risk



## I. Introduction

There are many things in political democracy that have an impact on stock price movements, including democracy, and presidential elections. This illustrates that politics and the stock market are related to one another (Saad & Bouraoui, 2019). This is evidenced by other studies that examine the phenomenon that there is a personal relationship between a politician and the board of directors, as well as shareholder ownership in the company (Ashraf et al., 2020). This interrelationship is known as political connections, where political connections can consider the internal relationship between directors or shareholders and general election campaign activities carried out by politicians and companies, in this case we can take the example of campaign financing carried out by parties, where it is paid for by the board of directors of a company (Claessens et al., 2008).

The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

This defines many of the party and business groups that have been proven to take advantage of each other (Gama et al., 2019), this is evidenced in previous research conducted, with research that wants to see the impact of general elections on stock returns. A politically connected case study conducted in Pakistan, the results of the study found that politically connected stock returns have a significant influence on elections on the stock market, which illustrates a strong relationship between elections and stock returns (Ashraf et al. ., 2020). In other previous studies, it was found that politically connected companies tend to show unclear behavior because in reporting earnings and creating asymmetry between shareholders and managers, it can lead to exacerbating the problems

of agency theory (Dahan et al., 2013). Agency theory is a theory that has been developed from behavioral financial theory, which assumes that investors behave rationally. While in finance this illustrates that investors make decisions based on factors that are within them, such as psychological, this is not part of national expectations (Vurur, 2020).

Organization must have a goal to be achieved by the organizational members (Niati et al., 2021). The success of leadership is partly determined by the ability of leaders to develop their organizational culture. (Arif, 2019).

The many previous studies that have taken place illustrate that research on democratic relations in the economy (Ashraf et al., 2020; Assiotis & Sylwester, 2014) will become a political event. Political events that occur are expected to have consequences for the company because of the emergence of things that will be seen from a business point of view which will later have an impact on environmental uncertainty in the business environment in which it is located. Political relations will provide protection for the company against negative effects that will later appear on the company (Mitchell & Joseph, 2010).

In Indonesia, the relationship between the business world and the political world has been proven in previous studies. It is common knowledge that entrepreneurs in Indonesia are starting to enter the world of politics. This is evidenced by the existence of share buying and selling activities carried out on the Indonesian stock exchange which have become part of economic activity, which has a level of vulnerability to political activities (Adevia Fendiyani et al., 2020; Zulfitra & Tumanggor, 2019).

Politics that occur in Indonesia, are not directly related to the stock exchange on the Indonesia Stock Exchange (Indonesian stock market), but with the existence of political events, it is an illustration of the information received by investors and will subsequently be used to achieve the desired profit in the future (Adevia Fendiyani et al., 2020). From political events that occur in agency theory, it is a phenomenon that describes things that can affect investors when investing, this is evidenced by previous research where investment activities in the capital market become a momentum that can move investment activities, in influencing investors when carrying out their activities (Dasgupta & Chattopadhyay, 2020).

In 2018 Indonesia will hold simultaneous regional elections in 171 regions, and preparations for general elections and the presidential election make 2018 at that time known as a political year for Indonesia. The election campaign schedule will be carried out sequentially from February to June, and voting will be held on 27 June 2018 (Diniar & Kiryanto, 2016; Meidawati & Harimawan, 2004).

If you look at previous research, in the composite stock price index (JCI) political events can affect developments in the stock market, this is actually happening. Judging from the rise and from the historical performance of the JCI in 1999, 2004, 2009 and 2014 respectively, they were 70.06%, 44.56%, 86.88%, and 22.29%, if seen, actually during the political year. In Indonesia, investment performance is quite good (Suwaryo, 2008).

The stock that is in the capital market gets an influence that comes from the level of demand and supply on the stock. In the capital market, information is obtained that if the financial situation comes from the company, then this will have an impact on the stock price which will later be offered to the public (Adevia Fendiyani et al., 2020) It is very important in the country's economy, because the capital market is sensitive to events around it. When investors are going to carry out their activities, they will need relevant information before taking action.

When getting information, this will make investors think about, and rethink about the level of risk that will be faced and the return on funds that have been invested in the capital

market. The economic policy of a country will play a major role in providing up and down movements for companies in the capital market.

Based on the research sources above, the authors are interested in researching the relationship and the relationship between the world of politics and the world of capital markets on the Indonesia Stock Exchange, regarding stock returns, market returns, return expectations, risk, and about the relationship between market returns and returns stocks (in this case, discussing the stocks on the LQ 45 index).

This is because events in the political world are often a trigger source for fluctuations in the stock exchange, where investors in the capital market tend to be sensitive to events that are around it, this can be related to politics, economics, or other things, which make investor sentiment fluctuate (Manurung, 2019).

## **II. Review of Literature**

From a theoretical point of view, there are political events that occur in any country (not only Indonesia) that can be a triggering factor for fluctuations in stock prices. This occurs because investors tend to think only in the short term (Diniar & Kiryanto, 2016).

### **2.1 Political relationship and stock return on the LQ45 index**

Stock return is the return of shares that occurred and is a cash payment received, which is based on an investor owning ownership of the shares, it is added by changes in share prices that occurred in the past period divided by the share price at the time of investment.

The form of the return calculation is described as follows:

$$R = (P_t - P_{t-1}) / P_{t-1}$$

R = return.

P<sub>t</sub> = stock price at time t

P<sub>t-1</sub> = stock price at time t-1

Theoretically, return is the result obtained from the activities of investors when making investments. Return contains return from realization and return at the time of expectation. Realized returns are those that have already occurred while expected returns are defined as those that have not yet occurred or as an illustration of what will happen (Adevia Fendiyani et al., 2020).

In research that has been carried out by previous studies regarding the political relationship and stock returns, that stock returns and political relations have a close relationship (Oehler et al., 2013). In the general election, the stock return rate is higher than in the non-election, this is related to the concentration on the business cycle related to political dates (Santa-Clara & Valkanov, 2003).

The above can be called an event study, where event study is a study that studies the market reaction to an event (event), when there is incoming information, the information is displayed as an announcement and this has the aim of measuring the level of relationship between events. that occurs, with the rate of return of a securities (Meidawati & Harimawan, 2004). Things related to the understanding of the event study itself can relate to stock returns that occur around the event, information from economic and non-economic events will provide new information about a company (Diniar & Kiryanto, 2016; Manurung, 2019).

H1 : There is a significant difference between the LQ 45 rate of return before and after the 2019 general election.

## 2.2 Political relationship and market return

Based on previous research that market returns, that market returns have a positive and significant effect on stock returns, from a theoretical point of view it can be stated that the higher the market excess return, the higher the stock return, this is based on high investor confidence so that have an effect on the company's prospects, and investors are interested in buying it. So that it encourages demand for these shares and the stock price will rise (Kisman & Restiyanita, 2015).

In other previous studies, investor sentiment can be influenced by various incoming information, including changes in the political environment. Market participants, when in the market, are expected to be able to assess the relevance of each company related to political events (Hinich & Barnett, 2007). When events that are in political events have a relationship with the market, market participants have a sharp appreciation of politics, and its economic consequences have long been assumed in financial market studies (Kumar, 2015; Schwert et al., 1976). From these definitions regarding market returns, the authors formulate a hypothesis regarding market returns as follows.

H2 : There is a significant difference between the risks in stocks.

## 2.3 The political relationship of stock risk and expected return on the LQ45 index

Changes in stock prices are a form of reflection of human behavior, this cannot always be estimated, such as in political events in a country, natural disasters, wars, and other things. This can cause the capital market to be something unique for investors. In terms of investors, of course, investing has the aim of getting maximum profit, another goal is to minimize risk when investing. The risks that occur when investing must be carefully considered by investors. This is marked by the aspect which is an approach in conducting analysis and selecting stocks (Meidawati & Harimawan, 2004).

Meanwhile, previous research regarding the expected return or return expected by investors is about companies that entered LQ 45 shares in 2004. With abnormal return research variables. The results showed that Indonesia reacted to the general election results at that time.

Investors' expectations caused by political events will generally be reflected in the price or in the trading volume of shares. When a general election is held to elect the president, this is a political situation that occurs only in a certain period (every five years) so it is interesting to study (Sari, 2015; Zulfitra & Tumanggor, 2019)

## 2.4 The correlation coefficient relationship between market returns and stock returns (LQ 45)

The correlation coefficient is used to measure how big the relationship is between the variables studied, in the correlation coefficient there is a value between 0.00 to one, it is more clearly explained in the table below, that the closer R approaches the number 1, this illustrates that the correlation has strong relationship (Ghazali, 2005).

Interval Coefficient	Relationship level
0.00-0.199	Very low
0.20-0.399	Low
0.40-0.599	Medium
0.60-0.799	Strong
0.80-1.00	Very strong

H4 : There is a significant difference between the correlation coefficients in LQ stocks 45 before and after the general election.

The presidential election that took place in 2019, the time was not much different from the election of regional heads from various provinces in Indonesia, the simultaneous regional elections were held in 2018, taking place on 27 June 2018. Where the registration period for legislative candidates was carried out less than two weeks later.

While the registration of presidential and vice-presidential candidates for the 2019-2024 period will be carried out less than two months later, therefore the proximity of this time will give rise to an interesting euphoria.

From the events that have been described, it can be defined that the perception of an event that occurs will have an impact on the movement of stock prices in the capital market, this is supported by the perception from previous research that the presidential election will have an impact on companies listed on the Stock Exchange. Indonesian Effect. This is in line with previous research on the reaction of the Indonesian capital market around the 2009 general election which had a reaction to the LQ 45 index (Ajjoub et al., 2021; Colón De Armas et al., 2021; Ivani, 2020; Manurung, 2019; Oehler et al., 2013; Rahmawati & Achadiyah, 2015)..

### **III. Research Method**

The research method used in this research is by means of an event study, in which the politics of the general election of the president and vice president. The research wants to test whether there is a reaction between the 2019 government and the 2019-2024 government. In particular, the reactions from companies that are members of LQ 45.

The sample specifications in this study used the LQ45 stock index on the Indonesia Stock Exchange, the samples taken were companies that during 2017 to 2021 remained in LQ 45 (not in and out), and is not a banking stock.

The source of the data used in this study is the stock return of LQ 45 which comes from the calculation of stock returns that last on the LQ 45 index during 2017 to 2021. Then the researcher uses the source of the stock price of the Composite Stock Price Index which is then processed into market return data. Both data are sourced from yahoo.finance (Cahyaningdyah & Faridhatun, 2017; Rio Rita et al., 2018).

In the identification of events in this study, when the general election occurs it will have an impact on changes that are sufficient to bring about changes on a large scale in the political arena, which is accompanied by economic changes that occur. .

In this study the calculations used Excel 2010.

### **IV. Results and Discussion**

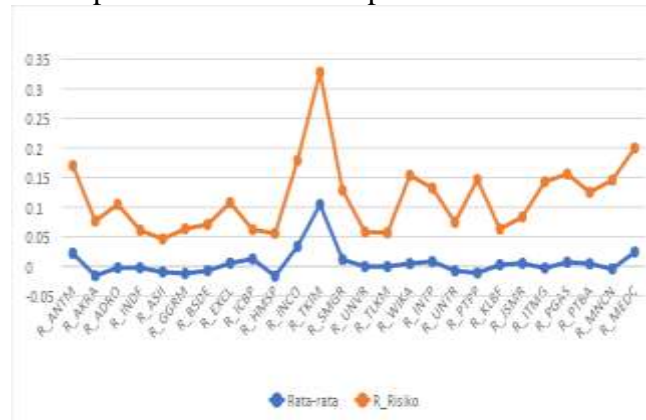
From the results of the research and analysis that has been carried out, it has been found that research results from all four existing hypotheses, namely regarding the political relationship with stock returns on issuers that are on the LQ 45 index, which have previously been studied which meet the requirements to become the sample, and also regarding risk, expected return of investors, and finally about wanting to see how the level of the correlation coefficient is on the relationship between expected return and risk return.



### a. Stock returns and market returns

The chart displays the difference between the return on the market (Rm) and the return on the LQ45 index (R\_LQ45) over time. The y-axis represents the difference, ranging from -0.15 to 0.2. The x-axis shows dates from 1/31/2016 to 12/1/2019. The blue line represents Rm and the orange line represents R\_LQ45. Both lines fluctuate around zero, with Rm generally staying above R\_LQ45 after mid-2017.

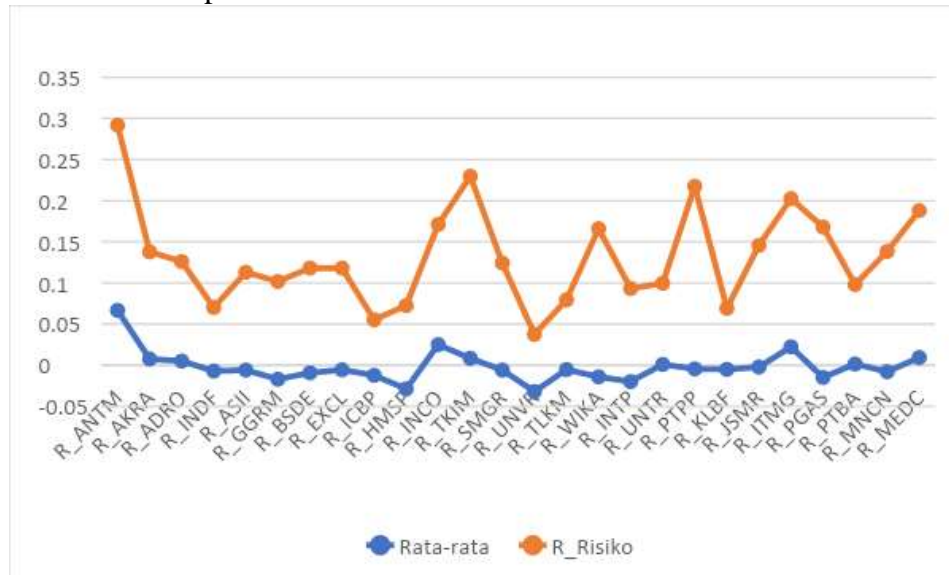
3. The political relationship of stock risk and expected return on the LQ45 index.



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Risk and Return the highest stock expectations occur in the risk TKIM stock return of 0.1045 and the expected return of 0.2234.

While the risk is the same and the expected stock return in the 2019-2021 government (after the general election) the highest return and risk expectation is the return from ANTM with an expectation of 0.066 and a stock risk of 0.2251



**Figure 3.** Picture of stock return and risk expectations after the 2019-2024 government (before the 2019 election).

From the graph above, the results show that stock risk and stock return expectations before the 2019-2021 government (before the election) were higher when compared to the period during the 2019-2024 government, where this was due to the government trusting the government more during the 2014 government than with the government 2019.

#### 4.2 Political relationship of stock risk, and correlation coefficient

The correlation coefficient is used to determine a quantity that states how strong a relationship is between one variable and another. The correlation used in this study is the Pearson correlation, where the Pearson correlation is a simple correlation involving only one dependent variable (Datta & K. Ganguli, 2014; Hoffman, 2012; Just & Exhaust, 2020; Safitri, 2016).

$$r_{xy} = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

$r_{xy}$  = Coefficient between Y and X

$x$  = Independent variable

$y$  = dependent variable

$n$  = lots of data

Coefficient the correlation before the 2019 government (before the general election) of 0.63490 at the time before the government period has a strong correlation coefficient with stock returns with market returns, in other words between stock returns and market returns before the 2019 government (before the general election) intensity level the strong one.

While the correlation coefficient during the 2019-2024 administration of 0.5378 has a moderate correlation coefficient between LQ45 stock returns and market returns. Which in other words can be described as being between stock returns and market returns during the 2019-2021 government has a low level of relationship intensity.

Where for the table is taken from the reference table according to:

Coefficient Interval	Relationship level
0.00-0.199	Very low
0.20-0.399	Low
0.40-0.599	Medium
0.60-0.799	Strong
0.80-1.00	Very strong

## V. Conclusion

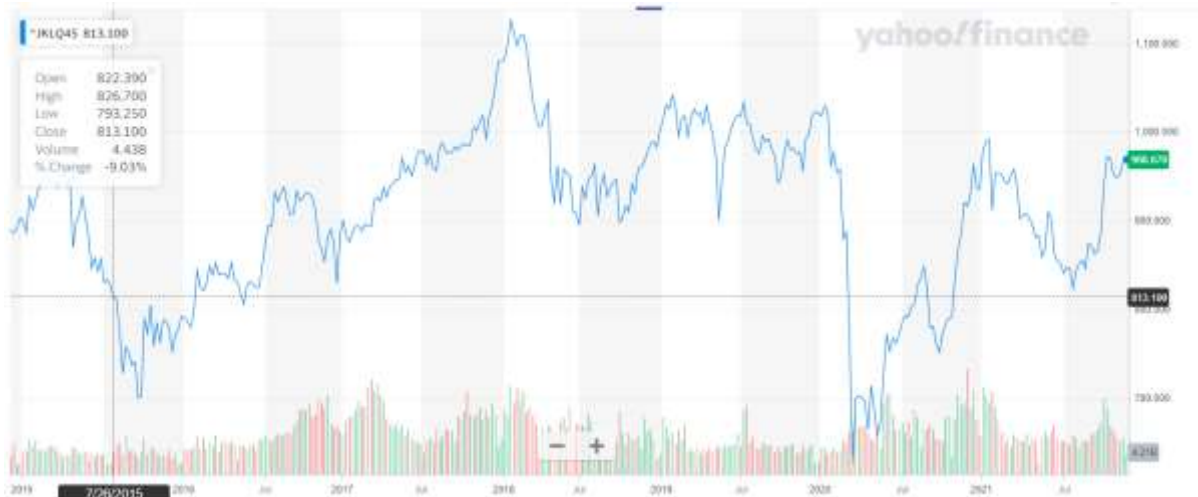
The researcher concludes in this research that there is a relationship between the government carried out and the stock movements that occur in the capital market, and the division is defined as follows:

1. LQ 45 stock returns before and during the 2019-2024 government, both experienced fluctuations, the highest return was in 2018 in January, while the lowest return occurred in March 2020.

This illustrates that investor confidence before the 2019 government was higher than after 2019 in LQ 45 stock returns. So to gain trust from investors it is expected that the government runs the government properly, so investors will be happy again, and this will have an effect (give an increase in movement) on the world capital market. Especially when Covid-19 first came in, this made the economy of almost all countries in the world experience a slump, this is because since Covid-19 struck, many countries have imposed lockdown regulations so that many people cannot carry out their usual activities.

The governments of these various countries have imposed lockdowns so that the virus does not spread further, and forbid people from leaving their homes if the situation is not urgent are only allowed to go out to buy basic goods, and to overcome their health if there is a problem





- Market returns before and during the 2019-2024 government are also like what happened to stock returns, market returns also fluctuated with the highest market returns in 2017 in December, while the lowest market return occurred in 2020 in March. This illustrates that investor confidence before the 2019 government was higher than after 2019 in LQ 45 stock returns.



- TKIM stock returns have a large expected return and risk, this can be influenced by TKIM being one of the strongest stocks in supporting the composite stock price index. , which until April 2021 strengthened by 0.54%, followed by SMRA and INCO. This could be because TKIM, INCO, and SMRA are companies engaged in the paper and packaging sector (TKIM) even though in difficult circumstances people still need packaging which is a product of the TKIM company so that what makes TKIM strong is the scope, apart from In the packaging service business, TKIM also has a subsidiary in the financial sector, which is engaged in the issuance of notes payable. This will make TKIM move less difficult than other companies, because the production of other

subsidiaries are engaged in forestry and provide wood, as a raw material in the paper industry.

The INCO Company by definition is engaged in the exploration and mining, processing, storage, transportation and marketing of nickel and other related mineral products. From the movement of shares since 2015 the movement of INCO's shares has increased quite significantly when compared to previous years. This is because since 2021 the price of coal is still at a high level of US 280 tons on Tuesday (5/10) which has resulted in INCO as a company engaged in mining having a high share price. The high share price cannot be separated from the price of other mining stocks which are also high, such as PT Bayan Resources (BYAN) with a strengthening of 85.46%, PT Harum Energy (HRUM) which soared 162.58%, and the company PT Indo Tambangraya Megah Tbk (ITMG) which advanced 79.42%, as well as strengthening in other mining stocks.



4. The results of the correlation coefficient before and after undergoing the 2019-2024 government. The correlation coefficient before the 2019-2024 government was greater than during the 2019-2024 government, this can be caused by the LQ 45 index during the reign, it can be seen from the curve below that the curve before the government was higher when compared to with the aftermath (of the current government), another thing that affects is due to the covid-19 outbreak which worsens economic conditions in various countries.



The suggestion is that the research is carried out for a longer research period, namely ending until the end of the 2024 government term, so that it will be able to see with a wider range of consequences that will later be caused.

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