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The Capital Market Response to the Information Content of the Announcement of Indonesia Entering a Recession in 2020 and Free of Recession in 2021 in the Covid-19 Pandemic
(Study on Company LQ-45)

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Abstract

The problem in this study is the existence of an inconsistent phenomenon of movement of the JCI value where at the time of announcement there was a recession that showed a negative economic growth for two consecutive quarters, namely the second quarter of 3.51% and the third quarter was 2.7% at In 2020, but the price of the JCI actually showed an increase, while when it was announced that Indonesia was free from recession, actually there was a decline trend at the JCI price. The purpose of this study was to analyze the differences in abnormal return and trading volume of the LQ-45 company's activity before and after the announcement of Indonesia entered and out of the recession. The population in this study were all financial data of the LQ-45 company in the semester 2 of 2020 and semester 2 of 2021 in the Indonesia Stock Exchange. The sample in this study was a company that was always incorporated in the LQ-45 index during the observation period. Data Collection Method is by document. The Data Analysis Method Used is a Different Different Test. Based on research, there are differences in the company's abnormal return before and after the announcement of Indonesia enters and is free of recession. There is a difference in trading of the company's activity volume before and after the announcement of Indonesia entered the recession. There is no difference in trading of the company's activity volume before and after the announcement of Indonesia is free of recession.

Keywords
abnormal return; trading volume activity; recession

I. Introduction

Global growth will slow over the next two years in the face of "new threats" from the new version of Covid-19 and rising inflation, debt and income inequality, the World Bank said on Tuesday in its latest report. While economic growth experienced a strong rebound in 2020, it is expected to experience a sharp decline from 5.5% last year to 4.1% in 2022, and slump to 3.2% in 2023. Given the rapid spread of the Omicron variant, the Covid-19 pandemic will continue to disrupt economic activity in the near term, according to the global economic outlook report. Furthermore, important slowdowns in major economies, including the United States and China, will impact external demand on their emerging and developing counterparts (Ma, Shi, & Ji, 2020).

An economic recession or what is commonly referred to as a recession is defined as a period in which the economy's wheels decline, marked by a weak GDP for two consecutive quarters. Recession is also characterized by high unemployment, low retail trade, and manufacturing profits that have fallen drastically for a long period of time. Indonesia's

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GDP fell slightly more than expected in the fourth quarter, pushing Southeast Asia's largest economy into contraction in its first year of more than 20 years in 2020 as it battles the Covid-19 pandemic. Data from the Central Statistics Agency on Friday showed that gross domestic product had a downward trend of 2.19 percent in the October to December period compared to the same period the previous year. That was worse than the 2 percent contraction economists had expected, but up from 3.49 percent in the previous quarter.

Based on research (Nerger, Huynh, & Wang, 2021) , it is stated that an event study can examine abnormal returns to determine the response of a capital market. The capital market will respond effectively and quickly to relevant information or news. If the information/news is received positively, it will have a positive effect on stock prices, and if the information/news is presented negatively, it will have a negative effect on stock prices leading to abnormal returns. This is also corroborated by research (Hoang, Pham, Ramiah, Moosa, & Le, 2020) which explains that the capital market will respond to changes externally by looking at information and producing actual returns that may be beyond what is expected.

The problem in this study is that there is a phenomenon in the form of inconsistent movements in the JCI value where when it was announced for the first time there was a recession which showed negative economic growth for two consecutive quarters, namely the second quarter of 3.51% and the third quarter of 2.7% in In 2020, however, the JCI price showed an increase, while when it was announced that Indonesia was free from recession, there was a downward trend in the JCI price. Besides that, it was also found that there was a research gap where research on abnormal returns and trading volume activity had been carried out by many previous researchers although different results were obtained, and there were still no studies examining the differences when Indonesia was announced to enter a recession. and when Indonesia was declared free from recession where in this study two events were used at once which could be stated as independent but still related. So that research related to the announcement of recession and recession free needs to be done.

II. Review of Literature

This signaling theory teaches that all behavior contains information. The information contained in an event that is published will provide a signal to investors to make investment decisions. This information allows investors and traders to determine their positions before and after the announcement of a recession. If the announcement has a positive value, the market is expected to react at the time of the announcement (Yasar, Martin, & Kiessling, 2020) . Therefore, this information is very useful for parties outside the company (investors and creditors) to calculate if there is an event originating from outside the company. Through information received by parties outside the company (investors and creditors), this will cause outsiders to buy company shares or sell company shares when an event occurs.

Market overreaction occurs because investors rely on their emotions, experiences and intuition when making decisions to buy or sell stocks. To capitalize on the good news or reduce the conflicting results of the bad news, investors must act quickly on the new information. (Mynhardt & Plastun, 2013) . This behavior is generally noted because market participants, who overreact to new dramatic events in such a way that very negative news pulls the stock price well below its true value and extraordinary positive news pushes the stock price well above its fundamental value which is shown as an *abnormal return* .

Over a period of time, investors realize their mistakes and take corrective actions (Maheshwari & S. Dhankar, 2014) .

According to (Brav, Geczy, & Gompers, 2000) , *abnormal returns* describe the extraordinary large gains or losses resulting from investments during a certain period. Performance deviates from the expected risk-adjusted investment based on asset pricing models, or using long-term historical averages or various valuation techniques (Blajer-Gołębiewska, 2012) . According to (Kasmir, 2015) , event studies analyzing abnormal returns may just be an anomaly or they may point to something more sinister like fraud or manipulation. Abnormal returns should not be confused with "alpha" or excess returns obtained with actively managed investments. Abnormal returns can be either positive or negative. The figure is just a summary of how the actual returns differ from the predicted results. For example, earning 30% in a mutual fund that is expected to average 10% per year will create a positive abnormal return of 20%. If, on the other hand, in this same example, the actual return was 5%, this would result in a negative abnormal return of 5%.

Trading volume is one of technical analysis, because very high trading volume in the stock market is interpreted as a sign of market improvement. Rising stock trading volumes along with rising prices are a sign of a more *bullish case* . Investors can find out if the shares they are buying are actively traded in the market based on their trading volume. Actively traded stocks should have high trading volume, and high volume stocks should generate high returns (Asai & Unite, 2008) . Trading volume activity is defined as the total number of shares traded for a particular security. Where all types of valuable securities are traded during the trading day (Calderon, 2002) . Hourly reporting volume is an estimate. Volumes recorded at the end of the day are also estimates. The last actual count will be reported on the following day. Traders can also track the tick size of a stock or the amount of price change in a contract as an indicator of trading volume, as prices change more frequently as trading volume increases (Asai & Unite, 2008) .

2.1 Differences in Abnormal Return Before and After Recession Announcement

Based on *signaling theory*, an event contains potential information that can be useful for capital market players as a signal. Signals that can be received well (*good news)* or bad (*bad news)* by capital market participants will create a market reaction. The market reaction that arises will be able to cause a price change that can make the difference between the *actual return* and the *expected return* change due to the perception of investors or capital market participants in making decisions in the capital market (Husain & Javed, 2019) . Abnormal returns are obtained when investors invest during abnormal conditions where when the announcement of the entry and exit of the recession in Indonesia is information or new events that occur, so that investment decisions have an impact on changes in company value and soaring stock prices and vice versa. If the information is a notice containing this Information it will bring tremendous profits to the market. On the other hand, if there is no information, then there is no abnormal return which means investors do not react to the announcement of the entry and exit of the recession (Hampson & McGoldrick, 2013) . Information that can move stock prices is information related to company conditions and economic conditions that can affect the company's business movements. Information about the global conditions of a country can also move the company's stock price because the conditions experienced by the country will be able to create new policies that can ultimately disrupt the company's performance. Policies in the economic, social and political fields will greatly affect the company's business steps and make the company gain or lose profit during a certain period (Law et al., 2020) .

H $_{1:}$ There is a difference in the company *'s abnormal returns* before and after the announcement of Indonesia entering a recession

H $_{2:}$ There are differences in the company's *abnormal returns* before and after the announcement that Indonesia is free of recession

2.2 Differences in Trading Volume Activity Before and After Recession Announcement

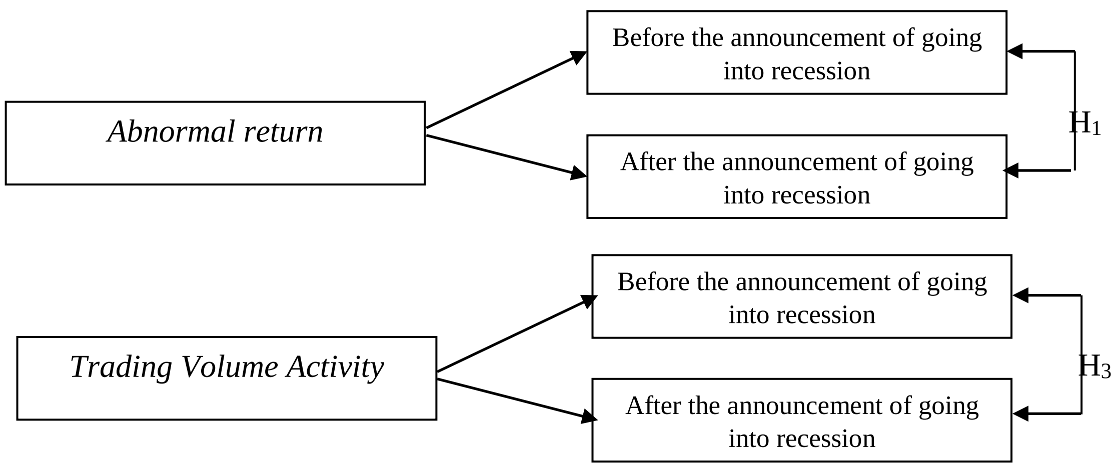
The basic volume theory is the theory of accumulation (bullish signals) and distribution (bearish signals). If the stock price rises on a certain day with increased volume, this is a sign that the capital market situation is improving. Investors tend to buy the stocks they target, and according to supply and demand, investors rarely release their holdings, and when demand exceeds supply, the price goes up. The effect is that buyers are able to absorb the increased selling pressure and, therefore, investors who have large capital will buy up the stock. Likewise, if the price drops on a certain day with increased volume, it means that investors or business actors are selling, so the market will decline. This indicates that the buyers were unable to absorb the increasing selling pressure and resulted in the share price falling further.

Volume is just a confirming signal, not a single indicator. This means that the original signal should be reflected in the price chart and volume can be used to confirm it. For example, the price must rise with a spike in volume to generate a buy signal. Stock trading volume will be able to increase or decrease along with the sensitivity of the market to the information received by the market. Good information and provide positive expectations for the overall economic condition will be able to increase trading in stocks, which in this case make purchases. However, information related to the uncertainty of economic conditions experienced in a country will also be able to increase stock trading, namely the existence of panic selling by the market which makes stock trading also increase. On the other hand, stable market conditions and a sluggish economy will reduce the interest of capital market participants to trade company shares (Nishat & Mustafa, 2008) .

H $_{3:}$ There is a difference in the *trading volume of the* company's activity before and after the announcement of Indonesia entering a recession

H $_{4:}$ There is a difference in the company's *trading volume activity* before and after the announcement that Indonesia is free of recession

From the description of the thought above, schematically described as in the picture below:



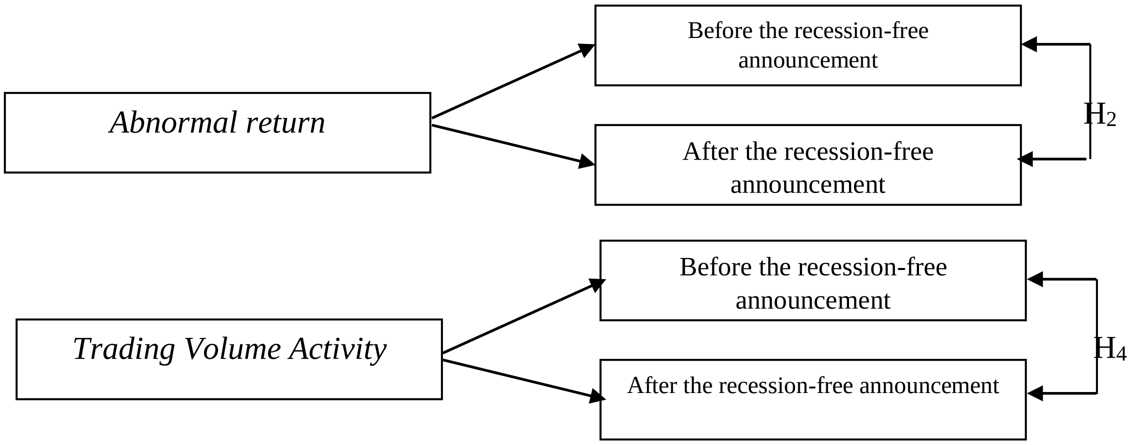


Figure 1. *Research Thinking Framework*

III. Result and Discussion

This research uses causal research (cause and effect). Causal research design is used to prove the cause-and-effect relationship of several variables. Causal research uses a research model that uses independent variables that will affect the dependent variable in the planned situation (Sugiyono, 2013). The data collection method used in this research is the secondary data documentation method.

3.1 Population and Sample

The population in this study is all financial data of the LQ-45 company in the 2nd semester of 2020 and the 2nd semester of 2021 in the Indonesia Stock Exchange. The sample in this study is a company that is always incorporated in the LQ-45 index during the observation period.

3.2 Method of collecting data

The method of data collection is done through the method of documentation. This method searches data through the Indonesia Stock Exchange. The observation period is 7 days before and 7 days after the two *events,* namely the first event is the announcement of Indonesia entering a recession and the second event is the announcement of Indonesia being free from recession.

3.3 Data analysis method

The analysis of this research hypothesis is to use a comparison test of two paired samples. Different test testing is carried out based on the results of the normality test, where when the data is normal, a parametric test with a difference test (T) is used and if abnormal data is found, the Wilcoxon test is used (Ghozali, 2016) .

III. Result and Discussion

The object of research used in this study is all financial data LQ-45 companies in the 2nd semester of 2020 and 2nd semester of 2021 that are listed on the Indonesia Stock Exchange which are always incorporated in the LQ-45 index during the observation period and do not receive suspension or delisting during the observation period . The companies that will be used for the research sample for semester 2 of 2020 (Recession entry announcement) are 44 companies and the research sample is for semester 2 of 2021 (Recession exit announcement) totaled 45 companies.

Table 1. Difference Test Before and After Recession Entry Announcement

	Paired Differences					t	df	Sig. (2-tailed)
	mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
air 1 Abnormal return before entering recession - Abnormal return after entering recession	-9.79850409	11.31318644	1.70552703	-13.23802714	-6.35898104	5,745	3	.000

	TVA after going into recession - TVA before going into recession
Z	-4,715 [a]
Asymp. Sig. (2-tailed)	.000

a. Based on negative ranks.
b. Wilcoxon Signed Ranks Test
Source: Research data are processed

3.1 Hypothesis test

a. Hypothesis 1

The first hypothesis in this study " Recession entry announcement effect on *abnormal returns* ". Based on table 4.5 it can be seen from the significance value of 0.000 <0.05, so the inference taken is to accept the hypothesis which reads " Announcing the entry of recession affect the *abnormal return* "at the 95% confidence level. The average *abnormal return* after the announcement of the recession was greater than the average *abnormal return* before the announcement of the recession, as shown in the description of descriptive statistics and the previous graphic presentation.

b. Hypothesis 2

The second hypothesis in this study " Recession exit announcement effect on *abnormal returns* ". Based on table 4.4 it can be seen from the significance value of 0.000 <0.05, so the inference taken is to accept the hypothesis which reads " Recession exit announcement affect the *abnormal return* "at the 95% confidence level. The average *abnormal return* after the announcement of the exit of the recession is greater than the average of the *abnormal return* before the announcement of the exit of the recession, as shown in the description of descriptive statistics and the previous graphic presentation.

c. Hypothesis 3

The third hypothesis in this study " Recession entry announcement effect on *trading volume activity* ". The test results in table 4.4 show that the significance value (sig) is 0.000. Because sig is 0.000 < 0.05, the inference taken is to accept the third hypothesis which reads " Recession announcements effect on *trading volume activity* ” at the 95 percent confidence level. The average stock trading volume after the announcement of the recession was greater than the average trading volume of the shares before the announcement of the recession, as shown in the description of descriptive statistics and the previous graphic presentation.

d. Hypothesis 4

The fourth hypothesis in this study “ Recession exit announcement effect on *trading volume activity* ”. The test results in table 4.4 show that the significance value (sig) is 0.651. Because the sig is 0.651 > 0.05, the inference taken is to accept the null hypothesis which reads " Recession exit announcement *has* no effect on *trading volume activity* ” at the 95 percent confidence level. The plus sign (+) in front of the t-value shows that the average stock trading volume before the announcement of the exit of the recession is greater than the average trading volume of the stock after the announcement of the exit of the recession, as shown in the description of the descriptive statistics and the previous graphic presentation.

3.2 Discussion

Based on statistical tests on the average *abnormal return* of stocks during the event period, it was found that there was a difference in the average *abnormal return* before and after the announcement of the recession. This indicates that market participants (investors) have anticipated this event by creating a safety net where investors do not make too many transactions before the announcement of the recession. However, after the Announcement went into recession there is a decrease in *abnormal returns* which means there is *bad news* where the announcement of entering a recession that is running is not responded well by investors, because there is still uncertainty about the company's performance after the announcement of entering a recession. In principle, investment risk in the capital market is closely related to the occurrence of stock price volatility which is influenced by information. An information that brings good *news (good news)* will cause stock prices to rise, and conversely information that brings bad news *(bad news)* will cause stock prices to fall.

Based on statistical tests on the average *abnormal return* of stocks during the event period, it was found that there was a difference in the average *abnormal return* before and after the announcement of the recession exit. The test results show that there is no market reaction to the announcement of the exit of the recession. This indicates that investors are not interested in investing throughout the period and do not respond to the announcement of the recession exit. Tests of the overall market reaction showed no significant difference before and after the announcement of the exit of the recession. Associated with the existing theory, namely the *signaling theory* , states that there are events that can provide a signal to the reaction to information in the market. In this study, investors assume that the announcement of the exit of the recession is bad information *that* cannot provide good company prospects in the future.

Based on the results of the average *Trading Volume Activity* before and after the announcement of the recession, it shows that statistically there is a difference to the average *Trading Volume Activity* before and after the announcement of the recession. Recession announcement event which is expected to be able to attract investors by lowering the stock price that is too high is in line with the results of this study. Stocks become more liquid after the announcement of going into recession thus causing many investors to be able to transact or increase their trading volume. Investors seem to show interest in companies that make announcements about going into recession as a result of signaling good future prospects through the provision of high *returns* . Conditions like this illustrate the existence of an even distribution of information regarding the announcement of a recession. There was a significant market reaction after the announcement of the entry into recession This shows that the information circulating in the capital market can be received by investors quickly. Investors catch recession entry announcement as good news or *good news* that can provide benefits in the future.

From the test results of the average *Trading Volume Activity* before and after the announcement of the exit of the recession, it shows that statistically there is no difference to the average *Trading Volume Activity* before and after the announcement of the exit of the recession. so that recession exit announcement has no effect on *Trading Volume Activity*. The average value of the resulting *trading volume activity* shows that there is a stable average stock trading volume, but on the first day of the period after the event, there is a large gap compared to the average trading volume before the announcement of the recession exit. This was due to the selling of shares by investors after the announcement of the exit of the recession. The results of this analysis strengthen the notion that the possibility of an announcement of a recession exit does not contain sufficient information to influence investor preferences in making investment decisions. This may be because the market as a whole has anticipated the recession exit announcement in advance to be published.

IV. Conclusion

Based on the results of the research that has been done, the following conclusions can be obtained:

1. There are differences in the company 's abnormal returns before and after the announcement of Indonesia entering a recession
2. There is a difference in the company's abnormal returns before and after the announcement that Indonesia is free of recession
3. There is a difference in the trading volume of the company's activity before and after the announcement of Indonesia entering a recession
4. There is no difference in the company's trading volume activity before and after the announcement that Indonesia is free of recession.

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