

Impact of A Political Event on Stock Market: The 2024 Presidential Election Quick Count Version (Study on Indonesia Composite Index and LQ45 Stocks)

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ABSTRACT

This study examines the capital market reaction to the announcement of the 2024 Election quick count results. Specifically, it analyzes the differences in Abnormal Returns of LQ45 stocks and the Market Cumulative Abnormal Returns before and after the announcement. This research employs a quantitative study approach using secondary data from companies listed in the LQ45 index on the Indonesia Stock Exchange (IDX). The observation period covers five days before and five days after the quick count announcement of the 2024 Presidential Election. The sample consists of 45 companies included in the LQ45 index. The findings indicate that the market showed a positive response to the quick count announcement, reflected in the difference in the Market Cumulative Abnormal Returns. However, there was no significant difference in the Abnormal Returns of individual LQ45 stocks. These results suggest that political events may influence overall market sentiment without necessarily affecting individual stock returns. Future research is recommended to extend the observation period, include other stock indices, and examine additional political or macroeconomic events to provide broader insights into market reactions.

Keywords:

Abnormal return, cumulative abnormal return, LQ45, quick count presidential election, financial market.

ABSTRAK

Penelitian ini bertujuan untuk menganalisis reaksi pasar modal terhadap pengumuman hasil quick count Pemilihan 2024 dengan menguji perbedaan Abnormal Return saham LQ45 dan Cumulative Abnormal Return pasar sebelum dan sesudah pengumuman tersebut. Penelitian ini merupakan penelitian kuantitatif dengan pendekatan study yang menggunakan data sekunder berupa harga saham perusahaan yang tergabung dalam indeks LQ45 di Bursa Efek Indonesia (BEI). Sampel penelitian terdiri dari 45 perusahaan yang termasuk dalam indeks LQ45. Periode observasi dilakukan selama lima hari sebelum dan lima hari sesudah pengumuman hasil quick count Pilpres 2024. Hasil penelitian menunjukkan bahwa pasar modal memberikan respon positif terhadap pengumuman hasil quick count Pilpres 2024 yang tercermin dari adanya perbedaan pada Cumulative Abnormal Return pasar. Namun demikian, tidak terdapat perbedaan pada Abnormal Return saham LQ45 secara individual. Penelitian selanjutnya disarankan untuk memperluas periode pengamatan, menggunakan indeks saham lain, serta mempertimbangkan peristiwa politik atau faktor makroekonomi lainnya.

Kata Kunci:

Abnormal return, cumulative abnormal return, LQ45, quick count pilpres, pasar keuangan

INTRODUCTION

Investment is an activity undertaken with the aim of gaining future profits through the allocation of funds to assets expected to yield returns. These assets can include stocks, bonds, real estate, and various other financial instruments. Investment stands as one of the primary pillars in building wealth and achieving long-term financial goals (Hartono, 2022). Investment not only involves storing funds but also enables those funds to grow and develop over time. The significance of investment is reflected in various aspects of life, both on an individual level and on a broader economic scale. By planning and engaging in wise investments, individuals can achieve their financial goals such as comfortable retirement, children's education, or preparing emergency funds to deal with unforeseen situations. On the economic front, investment plays a crucial role in driving economic growth and creating job opportunities, enhancing productivity, and fostering innovation. Thus, investment serves as a key to creating a more stable and prosperous future for both individuals and the economy as a whole.

The decision to invest is influenced by various factors that can affect investors' perceptions and decisions. One of the factors that influences this is the investment goals held by individuals. These goals can vary, ranging from achieving financial security to preparing for retirement. These differences in goals will affect the investment strategies chosen and the level of risk that investors are willing to take. In addition to goals, risk profile is also a crucial factor influencing investment decisions. Each investor has a different risk tolerance depending on their preferences, financial situation, and investment experience. Conservative investors tend to choose more stable and secure investments, while more aggressive investors may be more interested in investments with higher potential returns despite greater risks.

The capital market an economic instrument is inseparable from the influence of the environment, both the economic environment and the non-economic environment. Political events are of the non-economic risks that can influence investors' decisions to invest in the capital market. The 2019 Indonesian presidential election on stock returns when a prospective presidential candidate will be determined before the presidential election, during the implementation, and also after the implementation of listed on JII70, and the results showed that there was an investors' where 7 days before and 7 days after 17 April 2019 elections were held simultaneously. This research shows that the presidential election events in 2019 significant on returns and stock prices in several companies incorporated in the JII70 (Fendiyani *et al.*, 2020).

Several studies have examined the impact of political events on stock market reactions. Fendiyani *et al.* (2020) analyzed the effect of the 2019 Indonesian presidential election on stock returns in the JII70 index and found that the election significantly influenced stock returns during the event period. Adityaningrat (2021) investigated the market reaction to the announcement of the national vote recapitulation of the 2019 election using the LQ45 index and reported that the market responded to the announcement, although no significant difference was found in abnormal returns before and after the

event. Setiawan & Nisa (2020) also examined the market reaction to the quick count results of the 2019 presidential election on LQ45 stocks and found that the market reacted negatively to the announcement.

Other studies have also analyzed the broader impact of political events on the capital market. Papatungan *et al.* (2021) examined abnormal returns and trading volume activity before and after the 2019 Indonesian presidential election and found significant differences in trading volume activity but not in abnormal returns. Meanwhile, Puspita and Damayanti (2020) analyzed the capital market reaction to the simultaneous elections on April 17, 2019, focusing on property and real estate companies listed on the Indonesia Stock Exchange. Their findings showed differences in abnormal returns before and after the election event. Furthermore, Fitriaty & Saputra (2021) studied the Indonesian capital market reaction to political announcements related to the 2024 election participants, revealing that certain sectors experienced positive cumulative abnormal returns, while others experienced negative impacts.

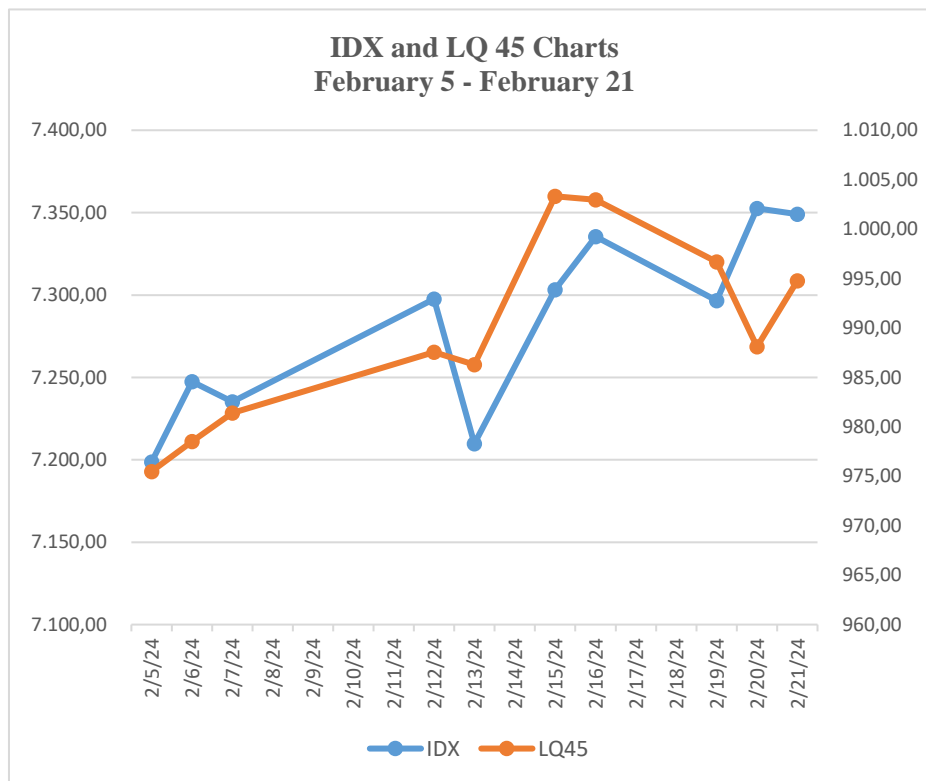


Figure 1. IDX and LQ 45 Charts
Source: IDX, 2024

The Indonesia Stock Exchange (IDX) Composite (IHSG) increased 1.3 percent on Thursday to close at 7,303.28, because of market players' optimism following the general election on Wednesday. In line with the IHSG, the LQ45 index, which tracks the top 45 stocks by market capitalization, rose by 1.53 percent to 1,003.32 by the closing. Researching the IDX and LQ45 index around the Indonesia Presidential election of 2024 can provide valuable insights into market reactions, investor sentiment, potential policy changes, and sectoral impacts, all of which are crucial for understanding the intersection of politics and the stock market. Based on the description above, this research aims to determine the difference between abnormal market returns and abnormal returns of shares listed on the LQ45.

The study conducted by Adityaningrat (2021) examined the market reaction to the announcement of the national recapitulation of the 2019 election vote count (studied on the LQ-45 index), measured through abnormal returns and trading volume activity. The research findings indicated a market reaction during and after the announcement of the national recapitulation of the 2019 election vote count. However, there were no significant differences in the average abnormal returns and trading volume activity before and after the announcement of the national recapitulation of the 2019 election vote count.

Previous research on the impact of political events on stock market movements has been extensively conducted, such as the study by Fitriaty & Saputra (2021), which examined the Indonesian stock market's reaction to the announcement of political parties qualifying as participants in the 2024 elections, the study found that the stock market reacted to the announcement of political parties qualifying as participants in the 2024 elections (Fitriaty & Saputra, 2021). It was revealed that the sectors with positive impacts were Infrastructure and Information Technology (IT), while other sectors exhibited negative cumulative abnormal return values.

The research conducted by (Jegarut *et al.*, 2021) concluded that capital market positively reacts to the announcement of the 2019-2024 Indonesia Onward Cabinet System. This reaction is in line with signaling theory in which one of the factors providing signal (increase activities) to capital market is the political event in which the information is published in the form of announcements through various media. Setiawan & Nisa (2020) examined the market reaction to news regarding the publication of the quick count results of the 2019 Indonesian presidential election on stocks included in the LQ-45 index, measured using both average and cumulative abnormal returns. The research findings indicated that overall, the market reacted negatively to the announcement of the quick count results of the 2019 Indonesian presidential election on stocks in the LQ-45 index.

The study by Papatungan *et al.*, (2021) analyzed abnormal returns and trading volume activity before and after the 2019 Presidential Election in the Republic of Indonesia, particularly focusing on state-owned enterprises (BUMN) included in the IDX BUMN 20 index. It was found that based on the results of the Wilcoxon-Signed Rank test, there was a significant difference in trading volume activity before and after the Indonesian Presidential Election, while for the paired sample test results on abnormal returns during the event period, it was found that there was no difference in abnormal returns before and after the presidential election.

Therefore, this study aims to analyze the market reaction to the announcement of the 2024 Indonesian Presidential Election quick count results by examining the differences in Abnormal Returns of LQ45 stocks and Cumulative Abnormal Returns of the market before and after the event. By applying an event study approach, this research is expected to provide empirical evidence regarding how political

events influence the Indonesian capital market and contribute to the literature on political events and stock market behavior. The hypotheses developed for this research are:

- H₁ : There is a difference in Abnormal Return of LQ45 stocks before and after the 2024 presidential election.
- H₂ : There is a difference in Cumulative Abnormal Return of the market before and after the announcement of the 2024 presidential election.

RESEARCH METHODS

The object of this research is companies included in the LQ45 index listed on the Indonesia Stock Exchange (IDX). The LQ45 index was selected because it represents 45 stocks with high liquidity, large market capitalization, and strong fundamentals, making it one of the most representative indices for analyzing market reactions in Indonesia. Stocks included in the LQ45 index are actively traded and frequently used as a benchmark for investors in evaluating stock market performance. Meanwhile, the Jakarta Composite Index (JCI/IHSG) is used as a proxy for overall market performance because it reflects the aggregate movement of stock prices listed on the Indonesia Stock Exchange. The use of LQ45 stocks and the market index in event study analysis is consistent with previous research examining market reactions to political events in Indonesia (Adityaningrat, 2021; Fendiyan *et al.*, 2020)

The population of this study consists of all companies included in the LQ45 index during the observation period, totaling 45 companies. These companies were selected as the research sample because they meet the criteria of high liquidity and active trading, which reduces the possibility of thin trading bias in event study analysis.

In this study, the market reaction is measured using Abnormal Return (AR) and Cumulative Abnormal Return (CAR). Abnormal return represents the difference between the actual return of a stock and its expected return during the event period. According to Henderson (1990), abnormal returns can be calculated as follows:

$$AR_{i,t} = R_{i,t} - R_{m,t}$$

AR_{i,t} = Abnormal return of security (i) in event period (t).

R_{i,t} = Actual return of security (i) in event period (t).

R_{m,t} = Expected return in event period (t).

The Cumulative Abnormal Return (CAR) five days before and five days after the 2024 Presidential Election. 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 2024 Presidential Election events. The equation used for this model is as follows:

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

CAR_i = Cumulative Abnormal Return in time period (t) for stock (i).

The data used in this study are secondary data obtained from the Indonesia Stock Exchange, including daily closing stock prices of LQ45 companies and the Jakarta Composite Index. The analysis procedure consists of several stages. First, the daily stock returns and market returns are calculated. Second, abnormal returns are determined by subtracting expected returns from actual returns using the market-adjusted model. Third, cumulative abnormal returns are calculated to observe the overall market reaction during the event window.

RESULT AND DISCUSSION

In this study, hypothesis testing begins with calculating the stock returns of each company included in the LQ 45 index. Next, the market return is computed using the market-adjusted model assumption. Then, the expected return is determined, with the market return serving as the expected return. Subsequently, abnormal returns are calculated by subtracting the actual return from the expected return. Once abnormal returns are obtained, the next step involves computing the Cumulative Abnormal Return (CAR) of the market, which is used to observe the accumulation of abnormal returns 5 days before and after the event in the market. Additionally, this study employs a difference test by comparing abnormal returns and cumulative abnormal returns before and after the event using a paired t-test.

Table 1. Descriptive Statistics Analysis

	Mean	Std. Deviation	Minimum	Maximum
Abnormal_Return_Before	.0004	.0056	-.0086	.0060
CAR_Before	-.0010	.0053	-.0055	.0082
Abnormal_Return_After	.0032	.0047	-.0034	.0090
CAR_After	.0124	.0036	.0082	.0159

Source: Authors' work (2024)

The descriptive analysis indicates that prior to the announcement of the Quick Count results, the average abnormal return of LQ45 stocks was 0.0004 with a standard deviation of 0.0056, while the cumulative abnormal return (CAR) of the market had an average of -0.0010 with a standard deviation of 0.0053. After the event, there was an improvement in performance, with the average abnormal return 0.0032 and the market CAR at 0.0124. This suggests a positive market response following the announcement of the Quick Count results, reflected in the increased performance of LQ45 stocks and the overall market. The data variability also appears to decrease after the event, as indicated by the lower standard deviations in both variables post-event.

In the case of LQ45 stock abnormal returns before the event, the low minimum value (-0.0086) suggests a potential significant decrease in stock value, while the high maximum value (0.0060)

indicates potential significant increases. Post-event, the minimum abnormal return becomes more positive (-0.0034), indicating increased stability, while the lower maximum value (0.0090) suggests that the increase in stock value is not as high as before. Similarly, for the market CAR, the negative pre-event minimum value (-0.0055) indicates potential significant decreases in market performance, while the positive maximum value (0.0082) suggests significant potential increases. After the event, there is a significant improvement in market performance, indicated by the more positive minimum value (0.0082) and the lower maximum value (0.0159). This indicates a positive market response following the announcement of the Quick Count results, with increased stability and decreased volatility.

Table 2. Normality Test of Data

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig	Statistic	df	Sig
Abnormal_Return_Before	.237	5	.200*	.911	5	.474
Abnormal_Return_After	.188	5	.200*	.984	5	.955
CAR_Before	.202	5	.200*	.938	5	.650
CAR_After	.225	5	.200*	.862	5	.236

Source: Authors' work (2024)

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov test, it was found that all data in this study are normally distributed as indicated by the asymptotic significance value (Sig > 0.05). Since the data in this study are normally distributed, paired T-test can be conducted.

Table 3. Paired T-test Before and After the Event

Paired Differences		t	Sig. (2-tailed)
Pair			
Pair 1	Abnormal_Return_Before-Abnormal_Return_After	-1.374	.241
Pair 2	CAR_Before-CAR_After	-4.698	.009

Source: Authors' work (2024)

The t-value for the combined abnormal return is -1.374 with a probability of .241. Therefore, the p-value of the combined abnormal return, $0.241 > 0.05$. The t-value for the combined market cumulative abnormal return (CAR) is -4.698 with a probability of 0.009. Hence, the p-value of the combined market CAR, $0.009 < 0.05$.

Based on the obtained analysis results, it can be concluded that:

1. There is a difference in the Cumulative Abnormal Return of the market before and after the announcement of the quick count results of the presidential and vice-presidential elections in 2024.
2. There is no difference in the Abnormal Return of LQ45 stocks before and after the announcement of the quick count results of the presidential and vice-presidential elections in 2024.

Based on the analysis of Cumulative Abnormal Return (CAR) of the market, it shows significant differences in the comparison of CAR before and after the Quick Count of the 2024 Presidential Election. The combined CAR test results indicate a significant difference, indicating that

there is a market reaction to the announcement of the quick count results of the 2024 presidential and vice-presidential elections. Meanwhile, for the analysis of Abnormal Return, it shows non-significant differences in the comparison of Abnormal Return before and after the Quick Count of the 2024 Presidential Election.

Table 4. Market CAR Results

Period		Market Return	Cumulative Abnormal Return	Cumulative Abnormal Return (%)
05 February	t-5	-0,0055	-0,00555	-1,00%
06 February	t-4	0,0068	0,0012	0,00%
07 February	t-3	-0,0017	-0,0005	0,00%
12 February	t-2	0,0086	0,0082	1,00%
13 February	t-1	-0,0120	-0,0039	0,00%
15 February	t+1	0,0130	0,0091	1,00%
16 February	t+2	0,0044	0,0135	1,00%
19 February	t+3	-0,0053	0,0082	1,00%
20 February	t+4	0,0077	0,0159	2,00%
21 February	t+5	-0,0005	0,0154	2,00%

Source: Authors' work (2024)

The following table shows the results of the calculation of Cumulative Abnormal Return (CAR) accumulated from February 5th to February 21st, 2024. The event period covers five days before the Presidential Election (t-5 to t-1) and five days after (t+1 to t+5). On February 13th, 2024 (t-1), a negative Return Market value (-0.0120) is observed, resulting in a negative accumulation of CAR Market value (-0.0039). However, on February 15th, 2024 (t+1), the Return Market value turns positive again (0.0130), leading to an increase in CAR Market value (0.0091). This indicates a significant market fluctuation leading up to and following the Presidential Election in 2024. Despite some fluctuations, at the end of the period (t+5), the CAR Market value increase 2.00%, indicating a significant increase in overall market performance after the event.

Based on the conducted tests, several important findings regarding the difference in Abnormal Return of LQ45 stocks and Cumulative Abnormal Return of the market before and after the 2024 Presidential Election have been identified. Overall, there is no significant difference in the Abnormal Return of LQ45 stocks before and after the Quick Count event. This indicates that based on historical stock price data, the Presidential election event did not have a direct significant impact on the performance of individual stocks in the LQ-45 index. However, the test results indicate a significant difference in the overall market performance, reflected in changes in Cumulative Abnormal Return of the market. There is a significant increase in the CAR of the market after the Quick Count. Significant fluctuations in market performance are observed before and after the Quick Count, but at the end of the period, overall stock market performance experiences a significant increase. This indicates that the stock market responded positively and optimistically to the interim election results of the 2024 general election, demonstrating market confidence in political and economic stability after the election results announcement.

CONCLUSION AND RECCOMENDATION

This study aims to explore the differences in the performance of individual stocks and the overall stock market before and after the Presidential Election. Based on the analysis results, there is no difference in the Abnormal Return of LQ45 stocks before and after the Presidential election, indicating that the political event did not affect the performance of individual stocks. However, there is an increase in the CAR of the market after the event, indicating a positive market response to the political event outcome. Despite performance fluctuations, ultimately, the overall stock market shows an increase, demonstrating market confidence in political and economic stability after the election results announcement. Therefore, stakeholders need to understand the importance of understanding how specific political events can influence capital market behavior and be relevant to understanding the relationship between political events and capital markets in making investment decisions.

Based on the research findings, it is recommended to delve deeper into the factors that can influence the overall stock market performance in the context of political events, such as the Presidential Quick Count. Further research may expand the scope of analysis to consider additional variables that may affect market response, such as macroeconomic factors and investor sentiment. Additionally, further research can also explore the broader and more complex impact of political events, as well as conduct a more in-depth analysis of the performance of individual stocks and specific market sectors in the context of these events. This will assist investors, market analysts, and other stakeholders in understanding the complex relationship between political events and stock market behavior, and in formulating better investment strategies in the future.

Despite its contributions, this study has several limitations. First, the observation period used in this study is relatively short, covering only five days before and after the event, which may not fully capture longer-term market reactions. Second, this study focuses only on companies included in the LQ45 index, which represent highly liquid stocks, and therefore may not reflect the reactions of other sectors or smaller-cap stocks in the broader market. Third, the study only examines abnormal returns and cumulative abnormal returns without considering other indicators of market reaction such as trading volume activity or investor sentiment.

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