Does presidential debate bring optimism? A study of Indonesia's 2024 pre-election year

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Abstract

The political future is inherently unpredictable, particularly in the run-up to elections. This article analyses whether such uncertainty matters. In this paper, we raise an interesting issue of the impact of political debate on the stock market of a developing country. Specifically, we investigate whether people's economic expectations are conditional on their estimations of potential election outcomes. The subject of this study is the relationship between political events, including the 2024 presidential debate, and Indonesia's financial markets. The authors analyse stock price movements of the 30 most actively traded issuers, as ranked by the Indonesia Stock Exchange, acknowledging that not all issuers trade daily in this emerging market. Using the Wilcoxon rank-sum test, we assess whether significant differences in investor responses exist before and after the debate periods (debates 1 to 5). According to the findings, investors believe that this event has no impact on their economic decisions, because candidate electability is dominated by incumbent candidates, so it is assumed that there will be no significant changes in financial policy. Therefore, investors appear relatively indifferent to the election dynamics during this period. Overall, the results show that Indonesian people anticipate election outcomes; in other words, pre-election economic expectations reflect both current political realities and projections of the future.

Keywords

- electability
- presidential debate
- volatility
- stock markets

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Introduction

The capital market is often seen as a barometer of a country's economic health (Raza et al., 2023), with stock prices fluctuating in response to various factors, including economic conditions and political developments. Political uncertainty from various political events has a strong influence on stock performance (Nguyen et al., 2023; Pástor & Veronesi, 2013). This link often arises because investors respond to uncertainty during a political year, especially during election periods. Markets tend to respond to new information regarding political decisions that may have an impact on a country's fiscal and monetary policies (Pantzalis et al., 2000).

Reviewing the factors that impact capital markets is especially important in the context of developing countries, where stock markets are often more volatile and susceptible to sudden changes. Previous literature confirms that political risk is the main determining factor in stock returns in emerging markets compared to developed countries (Diamonte et al., 1996; Yiadom et al., 2023). Investors may not be able to fully anticipate the impact and benefits on their portfolios, particularly regarding potential future political changes (2016) also argues that political events and uncertainty influence investors' decisions regarding market timing and portfolio allocation in different markets.

The impact of political events on stock market performance has been widely explored in the literature, revealing the influence of various political events on stock prices and returns during elections. The market absorbs election-related news and trends into stock prices to anticipate election results as implied by information efficiency (Pantzalis et al., 2000).

The interaction between politics and finance is always interesting to study (Martínez & Santiso, 2003), especially the relationship between the polling analogy and financial behaviour (Fry & Burke, 2020). Previous literature has noted a significant increase in the CBOE Volatility Index (VIX) in the 2020 US presidential election (Białkowski et al., 2022; Nguyen et al., 2023). The polling results of the US presidential election in July 2020 pointed to Joe Biden's victory over Donald Trump, which was followed by an increase in the CBOE volatility index to a record high of 28%, soaring 41% from the historical average (Nguyen et al., 2023). Another event was the poll in England on April 21, 2015, which showed the potential for equal victory between the Labour Party and the Conservative Party (Whiteley, 2016) resulting in high volatility in the UK stock market (Fry & Burke, 2020).

Empirical evidence regarding the relationship between political events and stock prices raises the question of how election uncertainty affects the stock market ahead of the election. To answer this, the research examines the impact of presidential and vice-presidential candidate debates on changes in polling results that impact the stock market during the pre-election period in developing coun-

tries such as Indonesia. Capital markets in developing countries are very responsive to current political issues and events such as presidential candidate debates.

Previous literature has widely related polling to stock prices (Herold et al., 2021; Su et al., 2023). Polling, i.e. summarising current voter preferences that determine political support and the likelihood of winning future elections, provides a signalling effect over a certain period of time. Polling provides pre-election predictions that represent market expectations of election results. A large body of evidence shows that different preferences for various candidates proposed by parties have different economic expectations (Mian et al., 2023; Montone, 2022). For example, in America, differences in participants' political ideologies influence differences in stock market participation, investment decisions, risk preferences and financial analysis (Kaustia & Torstila, 2011; Kempf & Tsoutsoura, 2021).

Therefore, this research estimates that deviations between actual election results and voter expectations will contribute to the stock market. Higher accuracy of polling results means investors are less surprised, resulting in lower returns and stock volatility. This setting eliminates the possibility of reverse causality between changes in financial markets and changes in the probability of political party success, because uncertainty over the election outcome has been resolved and cannot be influenced by subsequent price changes.

This research contributes to the literature, namely contributing to previous research which focuses on the relationship between pre-election political uncertainty and stock market performance. Previous studies reveal how changes in the incumbent party's probability of re-election affect the variance of market returns using a sample of seven US elections (Goodell et al., 2020). This research is unique in that it focuses on the examination of the presidential and vice-presidential debate events, and, specifically, on the impact of the electability of certain presidential candidates on stock price volatility, thereby providing insight into political uncertainty that has not previously been explored in the literature. Research on the predictive power of frequent changes in political support on stock performance in developing countries is still limited. In addition, there is no consensus in determining whether election events affect stock market performance negatively or positively. Third, although some empirical research has revealed significant stock market reactions to election shocks (Białkowski et al., 2022; Pantzalis et al., 2000), no attention has been paid to the role of presidential and vice-presidential candidate debates and the accuracy of pre-election polls in anticipating movements in stock volatility and returns. This research is innovative compared to previous studies by exploring the influence of the presidential debate and the accuracy of market predictions before the election.

The aim of this research is to investigate the impact of various signals or events on stock market movements, with a special focus on the presidential and vice-presidential candidate debates and the polling results which influence the IHSG in the

context of changes in the political, financial and economic situation in Indonesia in the political year of 2024. Although previous research has examined the influence of political factors, especially elections, on stock market movements, there is still no research that focuses on the presidential and vice-presidential debate events. Thus, this research is expected to contribute to the current literature by examining the impact of the presidential debate on stock market returns in developing countries.

The relationship between finance and politics (especially opinion polls) is interesting to study both theoretically and empirically. Examining presidential debate events can provide insight into the influence of certain events on stock market speculation. The findings of this study can provide valuable input for future financial markets research and help understand the complex relationship between events and stock market movements. Predicting market volatility based on political events is a challenging task. This research provides a comprehensive examination of the role of political events as well as pre-election dynamics in determining stock market performance, thereby contributing to the existing body of knowledge in the field. Simply, the following study seeks to provide empirical evidence on the relationship between political events and stock prices, specifically addressing how pre-election uncertainty affects the stock market in the lead-up to an election.

1. Literature review

Political preferences and investment decisions. Personal values including political preferences influence investment decisions. Some literature states that reluctance to participate is associated with a mismatch in personal values, such as personal beliefs or sentiments (Conlin et al., 2015; Kaustia et al., 2023; Merkoulova & Veld, 2022). Nadeem et al. (2020) specifically found that certain psychological factors, such as investor beliefs, preferences and psychological biases, influence stock market participation.

The idea that personal values are fundamental and at least partly exogenous is supported by research results which prove that political preferences are genetically inherited (Alford et al., 2005; Dawes & Weinschenk, 2020). Elements of value expression can also appear in investment behaviour (Dawes & Weinschenk, 2020). Individuals with the same value considerations would choose not to participate in capital markets. Prejudice or negative perceptions of the capital market, such as speculation, injustice and gambling, may also have an impact on the decision not to invest in shares (Moueed & Hunjra, 2020), along with perceptions of risk (Almansour et al., 2023). However, there remains difficulty in explaining the de-

terminants of why individuals do not participate in the stock market, even though investment in the stock market is free (Guiso et al., 2003).

Previous research results show that party alignment or party affiliation has an impact on economic expectations, including participation in the stock market. There is empirical evidence that distrust of promises shifts investment decisions towards the stock market (Guiso et al., 2003). Bonaparte et al. (2017) show that individuals become more optimistic and perceive the market to be less risky when their preferred candidate is in power. Furthermore, supporters of incumbent political parties in America tend to be optimistic about obtaining stock returns (Bonaparte et al., 2022). Therefore, investors with political affiliation in their preferred candidates tend to increase their allocation to risky assets, demonstrating a stronger preference for high-beta, small-cap and high-value stocks, while showing a weaker preference for local stocks (Bonaparte et al., 2022).

In the context of the Australian election, research has shown that sentiment and preferences towards parties influenced future consumer behaviour, including vehicle purchases (Gillitzer & Prasad, 2018). Supporters of the winning party tend to be more optimistic than supporters of the losing party. Similarly, a positive relationship has been identified between voter preferences and aggregate demand as well as state-level GDP growth (Benhabib & Spiegel, 2019).

Discrepancies in personal values regarding the stock market tend to create cognitive dissonance (Akerlof & Dickens, 1982). Cognitive dissonance can be thought of as an additional participation cost on individuals who are reluctant and do not participate in the stock market. Kaustia and Torstila (2011) suggest that some people consider the stock market to be incompatible with their personal values, in the context of an imbalance between actions and values (cognitive dissonance). On the other hand, several studies are still inconsistent in concluding the relationship between party affiliation and economic expectations. There is evidence of a significant relationship between partisan affiliation and optimism about the future economy (Mian et al., 2023). Republican affiliated partisans have a more optimistic outlook as evidenced by increased spending. Other studies confirm the impact of shifts in the political climate (change in power) on stock prices in America. This research found systematic changes in the composition of investors' portfolios (Addoum & Kumar, 2016). Further research also supports the finding that investor portfolio allocation to risky assets is influenced by the conformity of expectations towards the authorities, whether the candidate being nominated is in power (Bonaparte et al., 2017). This means that partisan perceptions impact investment behaviour in real ways.

Polling results and share prices. The Efficient Market Hypothesis (efficient capital markets) states that important new information is immediately reflected in prices. A substantial body of literature explores the relationship between election outcomes and stock market performance (Fry & Burke, 2020; Goodell et al., 2020).

In this case, opinion polls reveal information regarding the likelihood of a candidate winning the election (Herold et al., 2021). A common concern in opinion polls is a socially desirable response bias (Fry & Burke, 2020). Why do party preferences matter? Private companies face political risks, and political stability is considered important for investment and economic growth. Party preferences, as reflected in election results, effectively determine government philosophy and resulting policies, including international trade policies that impact investment. The relationship between political parties and business or certain economic sectors has a long history (Faccio, 2006). Morgan and Stocken (2008) explain that opinion polls actually reflect ideological beliefs so that policymakers take signals from opinion polls.

A candidate's winning potential has been proven to have a positive (negative) relationship with share prices. Investors' disapproval of the potential victory of presidential candidates (based on polling) was followed by weakening stock returns in America in 2003 (Montone, 2022). This is especially true in countries with high political uncertainty and low market sentiment.

Herold et al. (2021) examined the market reaction to the 2016 presidential election. The study found that, intuitively, active investment strategies tend to outperform when stocks that react positively to Trump's polling score increase. Furthermore, Wagner et al. (2018) document that Trump's election was largely unexpected and significantly shifted market expectations – particularly regarding lower corporate taxes and stricter trade policies – leading to a swift response in stock prices. In short, polling analysis shows that expectations regarding tax rates greatly influence firm value. Considering that this election was a surprise, this also means that the probability of such an event occurring was considered low in advance. Therefore, elections also provide an opportunity to assess whether – and to what extent – low-probability political outcomes are reflected in share prices. Ejara et al. (2012) confirmed these results. They looked at the impact of polling during the 2008 US presidential election campaign on the stock market and found negative reactions to Democratic Party presidential candidates. Another study in Australia revealed strong evidence showing that stock returns react more to preferences for voting for the Australian Labor Party over the Liberal-National Party (Narayan & Narayan, 2021). The different candidate profiles of the two candidates are also expected to have different impacts on the stock market. Different findings that do not support the relationship between political events and stock performance come from several studies. Ioannidis and Thompson (1986), for example, find a positive but insignificant relationship between the Conservative Party polling in the UK and stock market performance. Likewise, Upadhyaya et al. (2023) found no significant impact of opinion polls supporting one candidate over another on stock returns. However, a simple statistical test shows that the market performed better when Trump was ahead in the polls compared to Clinton. Based on the following illustration, the following hypotheses may be formulated:

H_1 there is a difference in returns before and after the first presidential debate

H_2 there is a difference in returns before and after the second presidential debate

H_3 there is a difference in returns before and after the third presidential debate

H_4 there is a difference in returns before and after the fourth presidential debate

H_5 there is a difference in returns before and after the fifth presidential debate

We illustrate the conceptual framework of event window of this study as well as estimation in Figure 1.
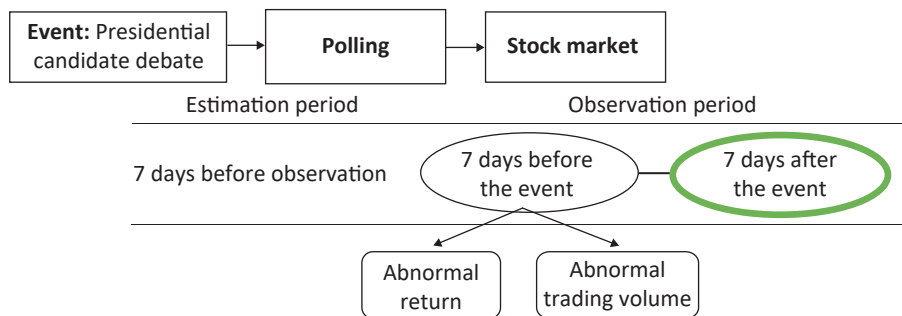

Figure 1. Framework of thought

Note: Estimation event window (estimation and observation period) to get abnormal return for the 7 days in a generic event study.

Source: authors' own elaboration.

2. Research methods

Event studies also serve an important purpose in capital market research as a way to test market efficiency. Abnormal returns that are systematically non-zero and persist after certain types of corporate events are inconsistent with market efficiency. Therefore, event studies that focus on the short run of an event can provide important evidence regarding market efficiency.

The basic data consists of daily returns and other company characteristics that are widely used in the return predictability literature, obtained from the Indonesia Stock Exchange. The testing procedure follows a general methodology, starting with a regression equation by looking at random price fluctuations if the market is efficient and past information is incorporated into current prices Investor

reaction can be measured by abnormal return during the event period. If investors react when the announcement is received, it means that the announcement contains information. Hypothesis testing begins by calculating the actual return, then calculating the market return, then calculating the abnormal return, after the abnormal return is obtained, the next step is to calculate the cumulative abnormal return (CAR) which is used to see the accumulation of abnormal returns 7 days before and after. In addition, this study also uses a paired t-test by comparing abnormal returns before and after. Considering that election polls after the presidential and vice-presidential debates 1 to 3 are assumed to influence asset prices, opinion poll information is included in the equation, as done by Chen et al. (2023), Forsythe et al. (1999) as well as Li and Born (2006). Forsythe et al. (1999) used a similar model, although using experimental (laboratory) stock markets to predict election outcomes. The coefficient of change in stock prices is expected to be negative because, ceteris paribus, rational investors will sell shares following a price increase on the previous day and buy an asset a price decline.

The coefficient of the poll variable is subject to the hypothesis that it will be positive if the market is bullish about the prospect of the candidate winning the election, and will be negative if the market is bearish about the prospect of the candidate winning the election. The daily return of this index is obtained from the IHSG database. For the polling variable, this research uses data from three top survey institutions, i.e. the Polling Institute (PI), the Indonesian Survey Circle (LSI) and the Center for Strategic and International Studies (CSIS). Polling results are preferred because they involve a large sample, more than 1,000 people in 34 provinces in Indonesia. The data series starts from the first debate (12 December 2023) to the fifth debate (4 February 2024):

The expected result is a sample of 165 observations, excluding weekends and holidays. To eliminate the influence of deviations (trends) in the estimates, we use daily returns on the indices described above. The current position (January 2024) shows that the electability of the Prabowo-Gibran (PG) candidate outperforms the other two candidates. The positive (negative) coefficient and significance of PG indicate a favourable (unfavourable) stock market response to the prospect of PG winning (losing). In short, the sample was determined using certain criteria, namely issuers with daily and monthly active trading. Issuers that are not active in daily trading cannot be selected as samples because they do not have daily or monthly return figures or do not have an *actual return value*. Data were analysed using a difference test with observations of 5 events (see Table 1), with the assumption of normality fulfilled using a probability plot.

Next, hypothesis testing is carried out based on data normality conditions: (1) a paired sample t test is used on observed data with a normal distribution; (2) a non-parametric Wilcoxon Signed Rank test is used on observed data that is not normally distributed.

Table 1. Operational definition of variables

Variables	Indicators
Actual returns	$R_{i,t} = (P_t - P_{t-1}) / P_{t-1}$
Expected return	ER = IHSG (Composite Stock Index) $R_{mt} = (IDX80_t - IDX80_{t-1}) / IDX80_{t-1}$
Abnormal returns	AR = difference ER over R_i
Window period	debate 1 to debate 5 (–7 to +7) days

Note: $R_{i,t}$ – the actual return share *i* on day *t*; P_t – share price on day *t*; P_{t-1} – stock price the previous day; R_{mt} – market return day *t*; $IDX80_t$ – an index of 80 stocks on day *t* that have high liquidity and large market capitalization and are supported by good company fundamentals.

Source: (Chen et al., 2023; Forsythe et al., 1999; Li & Born, 2006).

3. Research results and discussion

Based on the calculation results in Table 2, the average stock trading frequency table during the research shows a decreasing trend in activity and trading frequency during the debate event period. The frequency before the debate event is more active than the period during the debate. This illustrates people's pessimism that this political event affects the expected decline in economic expectations. Based on the results of calculating the average abnormal return during the research, it appears that investors received less profitable returns in the first and fifth debates. This shows that the market responded negatively to these particular debate events; this was a real action of investors' lack of partiality towards the pair of candidates who were declared dominant in winning the polling results (PG). Profitable returns began to be obtained from the second to fourth debates, which showed investor optimism towards the candidate pairs. Overall, the average abnormal return was negative both in the period before and after the debate event. These results show a decreasing trend in returns during the debate event. Meanwhile, transaction volume shows a decrease in the number from debate period 1 to debate period 5. This illustrates the anticipatory attitude of investors towards political uncertainty during the election process, which has an impact on the decision to sell the shares they own.

Table 2. Average return during the presidential candidate debate event

No.	Issuer	AAR$_1$		AAR$_2$		AAR$_3$		AAR$_4$		AAR$_5$	
		before	after	before	after	before	after	before	after	before	after
1.	ACES	0.0090	−0.0096	−0.00213	0.00026	0.0022	−0.0091	−0.0003	−0.0005	−0.0740	−0.0522
2.	ADRO	−0.0004	−0.0063	0.00324	0.01401	0.0159	0.0129	0.0070	0.0105	−0.0795	−0.0715
3.	AKRA	−0.0004	−0.0069	0.00260	−0.00490	−0.0030	−0.0045	−0.0001	0.0025	−0.0695	−0.0670
4.	AMRT	−0.0001	−0.0050	0.00451	0.01009	0.0120	0.0183	0.0110	0.0036	−0.0737	−0.0722
5.	ANTM	0.0033	−0.0043	0.00526	0.00515	0.0071	0.0133	0.0061	0.0082	−0.0738	−0.0658
6.	ARTO	−0.0016	0.0226	0.03213	−0.00187	0.0001	−0.0161	−0.0055	0.0097	−0.0555	−0.0563
7.	ASII	−0.0091	−0.0027	0.00685	0.00421	0.0061	0.0094	0.0099	0.0127	−0.0818	−0.0678
8.	BBCA	0.0000	−0.0133	−0.00381	0.00239	0.0043	0.0024	0.0042	0.0062	−0.0773	−0.0694
9.	BBNI	−0.0010	0.0000	0.00954	−0.00255	−0.0006	−0.0014	0.0079	0.0022	−0.0824	−0.0725
10.	BBRI	−0.0044	−0.0100	−0.00046	0.00425	0.0062	0.0043	0.0028	0.0084	−0.0798	−0.0754
11.	BMRI	−0.0019	−0.0076	0.00187	−0.00435	−0.0024	−0.0049	0.0031	0.0020	−0.0808	−0.0794
12.	BRPT	−0.0819	0.0202	0.02970	0.01206	0.0140	0.0446	0.0084	0.0093	−0.0709	−0.0598
13.	BUKA	0.0054	−0.0104	−0.00090	0.00881	0.0107	0.0143	0.0082	0.0128	−0.0717	−0.0491
14.	CPIN	−0.0003	−0.0041	0.00544	0.00762	0.0095	0.0159	0.0095	0.0109	−0.0761	−0.0773
15.	GOTO	0.0067	0.0053	0.01480	0.00614	0.0081	0.0014	0.0067	0.0037	−0.0857	−0.0545
16.	ICBP	0.0089	−0.0023	0.00723	0.00332	0.0053	0.0007	0.0027	0.0035	−0.0770	−0.0643
17.	INCO	0.0063	−0.0046	0.00495	0.00476	0.0067	0.0121	0.0080	0.0121	−0.0691	−0.0581

18.	INDF	−0.0025	0.0001	0.00961	0.00223	0.0042	0.0041	0.0031	0.0048	−0.0736	−0.0674
19.	INKP	0.0129	−0.0079	0.00159	0.00572	0.0077	0.0124	0.0053	0.0096	−0.0814	−0.0708
20.	ITMG	0.0008	−0.0093	0.00022	−0.00179	0.0001	−0.0034	0.0062	0.0091	−0.0773	−0.0679
21.	KLBF	−0.0051	−0.0025	0.00703	0.00660	0.0085	0.0081	0.0076	0.0112	−0.0698	−0.0635
22.	MDKA	0.0053	−0.0177	−0.00819	0.00142	0.0033	0.0249	−0.0078	−0.0070	−0.0665	−0.0588
23.	MEDC	0.0113	−0.0102	−0.00064	−0.00071	0.0012	−0.0077	−0.0015	0.0051	−0.0737	−0.0696
24.	PGAS	−0.0023	−0.0047	0.00486	−0.00146	0.0005	−0.0002	0.0034	0.0079	−0.0761	−0.0676
25.	PGEO	−0.0125	−0.0239	−0.01439	−0.00469	−0.0028	0.0013	0.0005	−0.0015	−0.0800	−0.0538
26.	PTBA	−0.0007	−0.0051	0.00438	−0.00877	−0.0068	−0.0094	0.0069	0.0085	−0.0764	−0.0723
27.	SMGR	0.0048	−0.0027	0.00680	0.00388	0.0058	0.0104	0.0116	0.0024	−0.0817	−0.0698
28.	TLKM	−0.0118	−0.0047	0.00479	0.00870	0.0106	0.0063	0.0075	0.0045	−0.0754	−0.0700
29.	UNTR	−0.0032	−0.0045	0.00505	−0.00167	0.0003	−0.0080	0.0005	0.0129	−0.0766	−0.0685
30.	UNVR	0.0023	−0.0051	0.00447	0.00412	0.0061	0.0105	0.0125	0.0129	−0.0734	−0.0540
Average		−0.0021	−0.0046	0.0049	0.0028	0.0047	0.0054	0.0048	0.0066	−0.0753	−0.0656
StDev		0.0163	0.0089	0.0090	0.0054	0.0054	0.0121	0.0048	0.0049	0.0059	0.0079
Average$_{before, after}$		−0.0126	−0.0111	–	–	–	–	–	–	–	–
StDev$_{before, after}$		0.0083	0.0078	–	–	–	–	–	–	–	–

Note: AAR – average abnormal return; StDev – standard deviation.

Source: authors' own calculation.

3.1. Calculation results of average daily *abnormal return*

Based on the calculation results in Table 3, we may observe a negative direction, which means that investors did not get profitable returns during the debate periods 1 to 5. This illustrates people's pessimism that this political event has influenced the expected decline in economic expectations. In line with previous studies, a pessimistic view of political attitudes that influences ideological positions raises anxiety regarding the possibility of socio-economic decline (Galdi et al., 2020; Mitrea et al., 2021).

There is empirical evidence that individual-level economic expectations are shaped not only by retrospective perceptions but also by political preferences (Ladner & Wlezien, 2007). Individuals who favour the current government tend to view the country's past economic performance more positively. Moreover, those with favourable views of the economy's past are generally more optimistic about the future, particularly if they align politically with the ruling party. Naturally, both retrospective evaluations and forward-looking expectations are influenced by the availability of information. This highlights the significant role politics plays in shaping economic perceptions. Therefore, the ideological inclination towards the presidential candidates is a function of retrospective financial appraisals and other economic considerations, which can ultimately influence investment decisions (Guiso et al., 2003). Similarly, Bonaparte et al. (2017) demonstrate that when an investor's preferred candidate loses, they tend to become more pessimistic and perceive the market as riskier.

Debate 1. The statistical test results, summarised in Table 4, show that the average abnormal return (AAR) was negative both before (–0.002) and after (–0.004) the event, indicating sustained underperformance (realised return < expected return). This reflects a condition in which actual investment outcomes fell short of prior market predictions. This is supported by previous studies regarding the poor performance of stocks in election years compared to non-election years (Yennaco, 2020).

From the CAPM perspective, this indicates that the performance of securities during the event period deviates from what would be expected based on their risk levels and the overall market performance. Investors in this event failed to obtain positive compensation based on the level of risk they predicted. Sustained underperformance in the period following the debate was even worse. This means that, overall, the market responded negatively to the results of the first edition of the presidential and vice-presidential debate held by the General Election Commission on December 12, 2023. The debate addressed key themes including law, human rights, government, strengthening democracy, eradicating corruption, community harmony and improving public services. Survey results summarised by Katadata

Table 3. Average daily abnormal return during the presidential debate event

Debate	t_{-7}	t_{-6}	t_{-5}	t_{-4}	t_{-3}	t_{-2}	t_{-1}	t_0	t_{+1}	t_{+2}	t_{+3}	t_{+4}	t_{+5}	t_{+6}	t_{+7}
1	−0.004	0.006	−0.002	−0.008	−0.002	−0.018	0.015	−0.013	0.007	−0.017	−0.005	0.009	−0.015	−0.009	−0.002
2	−0.004	0.006	−0.002	−0.008	−0.002	−0.018	0.015	−0.013	0.007	−0.017	−0.005	0.009	−0.015	−0.009	−0.002
3	0.003	0.004	0.011	−0.004	0.012	−0.005	0.012	0.030	−0.006	0.017	0.005	0.007	0.001	0.008	0.007
4	0.006	0.002	0.005	0.003	0.010	0.002	0.006	0.006	0.011	0.008	0.006	0.000	0.006	0.009	0.006
5	−0.148	−0.151	−0.018	−0.009	−0.088	−0.074	−0.039	0.883	−0.124	−0.062	−0.067	−0.011	−0.142	−0.001	−0.053
Average	−0.030	−0.027	−0.001	−0.005	−0.014	−0.022	0.002	0.179	−0.021	−0.014	−0.013	0.003	−0.033	−0.001	−0.009

Source: authors' own calculation.

Table 4. Statistical test results during presidential candidate debate events 1–5

Statistic	Debate 1		Debate 2		Debate 3		Debate 4		Debate 5	
	AR_{before}	AR_{after}	AR_{before}	AR_{after}	AR_{before}	AR_{after}	AR_{before}	AR_{after}	AR_{before}	AR_{after}
Descriptive										
Mean	−0.0020	−0.0045	0.0048	0.0027	0.0046	0.0054	0.0048	0.0066	−0,0753	−0.0655
Dev	0.0162	0.0089	0.0089	0.0053	0.0053	0.0120	0.0048	0.0048	0.0058	0.0078
Normality										
K–S test	0.293	0.232	0.230	0.084	0.084	0.097	0.139	0.141	0.139	0.175
Sig.	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.040	0.020
Conclusion	normal	normal	normal	normal	normal	normal	normal	normal	normal	normal
Hypothesis										
Wilcox-Z	−2.746[*]		−1.018[*]		−0.510[*]		−2.088[*]		−4.720[*]	
Sig.	0.006		0.039		0.959		0.037		0.000	
Conclusion	significant		significant		not significant		significant		significant	

Note: [*] based on negative ranks; AR_{before} – abnormal return before; AR_{after} – abnormal return after; dev – standard deviation; K–S test – Kolmogorov–Smirnov test; sig. – significance level; Wilcox-Z – the Wilcoxon signed rank-test, which is $z = 1.96$ for a two-tailed test and directionality.

Source: authors' own calculation.

Insight Center (KIC) show that presidential candidate 2 received the best rating (37%) compared to other candidate pairs (Annur, 2023). It seems that the results of the survey were not well-received by investors and instead led to an increase in the investment risk map so that no investor was able to obtain positive performance for their investment portfolio. This finding aligns with Hull's study (2017), which also reported negative market performance during the period leading up to an election. Opposition supporters are constantly more inclined than the incumbent party to expect the opponents to win. People who oppose the current government tend to view the past more negatively and, as a result, are more pessimistic about the future. Naturally, both retrospective evaluations and future expectations evolve as new information becomes available. Kaustia and Torstila (2011) suggest that some people consider the stock market to be inconsistent with their personal values, in the context of an imbalance between actions and values (cognitive dissonance).

The results of the data normality test show that the data is normally distributed (sig. 0.000). The Wilcoxon signed rank (WSR) test states that there is a difference ($p = 0.006 < 0.05$) in AAR before and after, which means that Hypothesis 1 is accepted. This finding is in line with market efficiency theory, that Indonesia with the semi strong form (SSF) of efficiency has been represented by the investor response which is reflected in changes in AAR before and after debate 1 (negative direction). This negative response shows that the political event (debate 1) did not gain public empathy and had an impact on people's economic expectations so that securities performance showed a downward trend, which investors had not anticipated. This finding is in line with previous studies suggesting that a pessimistic view of political attitudes that influences ideological positions gives rise to anxiety regarding the possibility of socio-economic decline (Galdi et al., 2020; Mitrea et al., 2021).

Debate 2. The statistical test results, summarised in Table 5, show that the average abnormal return (AAR) was positive both before (0.048) and after (0.0027) the event, indicating that realised returns exceeded expected returns – a condition in which actual investment performance surpassed prior market predictions. The CAPM perspective provides this information as a signal that the performance of securities during this event period has succeeded in considering risk and market performance effectively so that investors have succeeded in obtaining positive compensation. Realised return performance is smaller after the debate, which means that investors' calculations regarding risk and return expectations are slightly off.

The second debate (22 December 2023) carried the themes of digital economy, people's economy, taxes, investment, infrastructure, APBN and APBD management and urban areas. According to survey results by Political Indicators, presidential candidate 1 received the highest rating (35%) compared to the other candidate

pairs (CNN, 2024). Presumably, the results of the survey are in line with the expectations of the public and investors so that investors are able to obtain positive performance for their investment portfolios. The WSR test states that there is a difference (p = 0.039 < 0.05) in average abnormal return (AAR) before and after, which means hypothesis 2 is accepted. This finding aligns with market efficiency theory, suggesting that Indonesia – with the semi strong form (SSF) of efficiency – has been represented by investor responses which are reflected in changes in AAR before and after debate 2. This response shows that the political events of debate 2 are in line with public expectations, and thus the performance of securities shows a positive trend. Although there was a slight decline, it appears to have been anticipated and absorbed by investors.

This finding is consistent with previous empirical evidence indicating a significant relationship between the congruence of expectations of the winning candidate and optimism about the future economy (Mian et al., 2023). Investors then have a more optimistic view as evidenced by an increase in AAR. Other studies confirm systematic changes in the composition of investor portfolios (Addoum & Kumar, 2016). Investor portfolio allocation to risky assets is influenced by the congruence of expectations that the candidate being nominated is likely to assume power (Bonaparte et al., 2017). This means that partisan perceptions have a real impact on investment behaviour. This can be explained by the fact that the congruence of expectations toward candidates reflects ideological investors' ideological beliefs, leading them to interpret positive signals.

Debate 3. The statistical test results, summarised in Table 5, show that the average abnormal return (AAR) was positive both before (0.0046) and after (0.0054) the event, indicating that realised returns exceeded expected returns – a condition in which actual investment performance surpassed prior market predictions. The CAPM perspective provides this information as a signal that the performance of securities during this event period has succeeded in considering risk and market performance effectively so that investors have succeeded in obtaining positive compensation. Realised return performance is greater after the debate. This means that investors have been able to learn from previous events related to risk, so they are able to determine return expectations better. The third debate (7 January 2024) focused on the issues of geopolitics, international relations and defence and security. Survey results from Indonesian Indicator Research show that presidential candidate 1 received the best rating from netizens (35%) compared to the other candidate pairs (Putra, 2024). The results of this survey appeared to be in line with the expectations of the public and investors so that investors are able to obtain positive performance and increase their investment portfolio. The WSR test states that there is no difference (p = 0.959 > 0.05) in AAR before and after, which means that Hypothesis 3 is rejected. This finding is in line with market efficiency theory, suggesting that Indonesia with the semi strong form (SSF) of effi-

ciency does not represent the investor response which is reflected in the average AAR before and after debate 3. This response shows that the political events of debate 3 are not in line with public expectations, and therefore securities performance showed no change. This result is in line with previous studies which showed that investor disapproval of the potential victory of candidates (based on the results of the debate) was followed by a weakening of stock returns in America in 2003 (Montone, 2022). This is especially true in countries with high political uncertainty and low market sentiment.

Debate 4. The statistical test results, summarised in Table 5, show that the average abnormal return (AAR) was positive both before (0.0048) and after (0.0066) the event, indicating that realised returns exceeded expected returns – a condition in which actual investment performance outperformed prior market predictions. The CAPM perspective provides this information as a signal that the performance of securities during this event period succeeded in considering risk and market performance effectively, indicating that investors have succeeded in obtaining positive compensation. Realised return performance is greater after the debate. This means that investors learn from previous events related to risk so they are able to determine return expectations better. The fourth debate (21 January 2024) focused on the issues of sustainable development, environment, natural resources, energy, agrarian affairs, food, indigenous communities and villages. The majority of survey institutions put the electability of presidential candidate 2 ahead in this fourth debate. The results of the survey appeared to have received positive support from the market and investors, suggesting that investors are able to obtain positive (increased) performance for their investment portfolios. The WSR test states that there is a difference ($p = 0.037 < 0.05$) in AAR before and after, which means that Hypothesis 4 is accepted. This finding is in line with market efficiency theory, suggesting that Indonesia with the semi strong form (SSF) of efficiency represents an investor response which is reflected in the average AAR before and after debate 4. This response indicates that the political issues discussed in debate 4 aligned with public and investor expectations, resulting in improved (positive) performance of securities. This is in line with previous empirical evidence suggesting that there is a significant relationship between the congruence of expectations of the winning candidate and optimism about the future economy (Mian et al., 2023). Investors then have a more optimistic view as evidenced by an increase in AAR. Other studies confirm systematic changes in the composition of investor portfolios (Addoum & Kumar, 2016). Investor allocation to risky assets is influenced by the alignment between their expectations and the likelihood of their preferred candidate gaining power (Bonaparte et al., 2017). This means that partisan perceptions have a real impact on investment behaviour. This can be explained by the fact that the alignment of expectations

with certain candidates reflects investors' ideological beliefs, prompting them to interpret these developments as positive signals.

Debate 5. The statistical test results, summarised in Table 5, show that the average abnormal return (AAR) was negative both before (–0.0753) and after (–0.0655) the event, indicating sustained underperformance, where realised returns were lower than expected, reflecting actual investment outcomes falling short of prior market predictions. From the CAPM perspective, this indicates that the performance of securities during the event period did not effectively account for risk and overall market performance, resulting in investors failing to receive adequate positive compensation. Realised return performance is smaller after the debate. This means that investors fail to assess risk, and therefore fail to determine their best return expectations. The fifth debate (4 February 2024) touched upon the issues of social welfare, education, culture, information technology, employment, health, inclusion and human resources. The majority of survey institutions put the electability of presidential candidate 2 ahead in this fifth debate. The results of the survey appear to have received negative support from the market, leading to a situation where investors were unable to achieve positive performance in their investment portfolios. The WSR test states that there is a difference ($p = 0.000 < 0.05$) in AAR before and after, which means that Hypothesis 5 is accepted. This finding is in line with market efficiency theory, showing that Indonesia with the semi strong form (SSF) of efficiency represents an investor response which is reflected in the average AAR before and after debate 5. This response suggests that during the political events of debate 5, investors were apathetic toward the electability outcomes, resulting in a decline (negative) in security performance.

This is consistent with Hull's study (2017), which found negative performance in the period leading up to the election. Opposition supporters are constantly more inclined than the incumbent party to expect the opponents to win. People who oppose the current government tend to view the past more negatively, which in turn leads to greater pessimism about the future. Certainly, both retrospection and anticipation are shaped by the acquisition of new information. Kaustia and Torstila (2011) suggest that some people consider the stock market to be inconsistent with their personal values, in the context of an imbalance between actions and values (cognitive dissonance). Similarly, Wagner et al. (2018) documented that Trump's election came as a surprise, altering expectations – such as lower corporate taxes and stricter trade policies – which led to a swift response in stock prices. In short, the debate analysis shows that expectations about tax rates greatly affect company value. Ejara et al. (2012) confirmed this finding, showing that the impact of polling during the 2008 US presidential election campaign led to a negative reaction in the stock market, particularly towards the Democratic presidential candidate.

Table 5. AAR holistic summary of debate 1 to debate 5

Debate 1–5	Descriptive		Normality			Wilcoxon Signed Rank Test		
	mean	dev	K–S test	sig.	conclusion	Z	sig.	conclusion
Before	−0.1260	0.0032	0.144	0.015	normal	−1.656[*]	0.098	not significant
After	−0.0110	0.0047	0.101	0.000	normal			

Note: see Table 4.

Source: authors' own calculation.

The statistical test results, summarised in Table 5, show that the average abnormal return (AAR) was negative both before (−0.1260) and after (−0.0110) the event, indicating sustained underperformance, where realised returns were lower than expected, signifying that actual investment performance was worse than predicted. The CAPM perspective indicates that this information is a signal that investors failed to predict risk and return during this event so they were unable to obtain positive compensation. In fact, the realised return performance was smaller after the debate. This means that investors' estimates have missed their proper expectations.

The results of the electability survey (debates 1 to 5) appear to have received negative support from the market and investors, leading to a situation where investors were unable to obtain positive performance for their investment portfolios. The results of the data normality test show that the data is normally distributed, with a significance value of 0.000 both before and after. The WSR (Wilcoxon signed rank) test states that there is no difference ($p = 0.098 > 0.05$) in AAR before and after, which means that Hypothesis 5 is rejected. This means that it is assumed that this debate event does not contain information that investors consider meaningful in influencing investment decisions. As is known, the presidential and vice-presidential debate is a campaign event that can increase the electability of candidates. The response to the debate results, as summarised in the polling data from five survey institutions in Indonesia, i.e. Indonesian Data Scale (SDI), Charta Politika, LSI, Political Indicators and Poltracking Indonesia (Monalisa, 2024), indicates that candidate number 2 was consistently ahead across all five debates when compared to the other candidates. However, the results of various electability surveys are widely doubted because it is suspected that these institutions are political consultants for presidential candidates (Maulana & Abdullah, 2023). This doubt leads to the assumption of neutrality as well as the expectation of honest and fair elections. Political power remains in the hands of the incumbent so it will not have a significant impact on economic policy. Therefore, investors are not very responsive to the political events of the 2024 election and its instruments such as the presidential candidate debate.

This finding aligns with market efficiency theory, suggesting that Indonesia, exhibiting semi-strong form of efficiency (SSF), experienced a stagnant investor response to pre-election events, such as the presidential candidate debates, as reflected in the average AAR before and after the debates. This response indicates that, during the political events of debates 1–5, investors were apathetic towards electability outcomes and, as a result, failed to predict the performance of their securities.

On the other hand, because these debate events were held more than once, with each debate agenda seemingly favoring the incumbent presidential candidate, the resulting opinions and information became predictable and unsurprising. Therefore, in line with the SSF market concept, investors will only reach AR around event announcements (Tandelilin, 2010), i.e. in this case, in the second to fourth debate positions.

We show that favourable economic expectations improve slightly between the second and fourth debates. Following De Boef and Kellstedt (2004) and Adam (2014), we refer to this impact as the "honeymoon in economic approval ratings". However, as we show, this honeymoon is fairly short lived; any favourable influence wears out rather quickly within the final debate. In line with De Boef and Kellstedt (2004), who find that the positive effects of such events are short-lived, lasting less than two months, indicating that agents in a very short period of time revise their expectations about the manipulated survey results.

Meanwhile, the first debate was a moment to study the situation, while the last debate showed investors' lack of optimism. The debate event did not cause a difference in returns. Meanwhile, negative returns indicate that investors failed to predict market performance and securities market risks as a result of public confusion over the performance of presidential candidates which was not in line with statistical figures from survey institutions.

The current research found negative abnormal return movements. This downward movement can also be interpreted as a bearish condition, namely a decline in share prices for a certain period which indicates investment pessimism. Differences in the sources of survey institutions' calculations with the results of exit polls and internal counting of candidates cause confusion, and as a result, investors find it difficult to predict their investment decisions and postpone investment decisions around that period.

Conclusions

This research aims to test empirically whether there are differences in investors' responses to political events in 2024, namely the presidential and vice-presidential candidate debates. Empirical evidence regarding the relationship between politi-

cal events and stock prices raises the question of how election uncertainty affects the stock market ahead of the election. To answer this, the research examines the impact of presidential and vice-presidential candidate debates on changes in polling results (electability) on the stock market during the pre-election period in Indonesia. Capital markets in developing countries are very responsive to current political issues and events such as presidential candidate debates. WR statistical analysis is used to assess whether or not there are differences in investors' responses. This research comprehensively proves that investors react no differently both before and after the 1–5 debate period. This indicates that investors perceive the debates as having no substantial impact on their economic decisions, largely because candidate electability is dominated by incumbents. As a result, investors assume there will be no significant shifts in financial policy, leading to minimal market response to the current election period.

The findings may also help to explain Suzuki's (1992) discovery of an election cycle in expectations. In short, as the election approaches and the likely outcome becomes clearer, the majority of people become more positive about the economy's prospects. In essence, voters may consider this uncertainty, which may be especially true when there is a non-trivial possibility of shifts in political control, such as through a vote of no confidence, scandal or even strategic election timing (Kayser, 2005; Smith, 2003). To the degree that expectations shape behaviour, pre-election changes in economic expectations may generate tangible effects on real economic activity (Matsusaka & Sbordone, 1995).

This study faced several limitations, particularly related to the timing of the event. Specifically, during the presidential debate events, the stock exchange was closed, so there were no transactions in period t. To overcome this, the research extended the event window to ensure that trading data surrounding the event was still captured. However, this limitation has consequences for the validity and accuracy of the information content of the event. Future studies may consider alternative methods to estimate abnormal returns even when trading activity is absent on the exact event date.

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