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Testing the Effect of General Election on Market Reaction of Islamic vis-à-vis Conventional Capital Market: Does Presidential Election Cycle Theory Exist in Indonesia?

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Abstract: This paper investigates the Presidential Election Cycle Theory by examining the Indonesian stock market's reaction to presidential elections from 2004 to 2024. Specifically, it compares the reactions of Islamic and conventional capital markets. Employing an event study methodology with abnormal return as the indicator, the analysis utilizes secondary data comprising daily stock prices for seven days preceding and following each election. The findings indicate that presidential elections have a significant effect on capital market reactions, as evidenced by abnormal return values. However, the Islamic capital market demonstrates greater resilience than its conventional counterpart in responding to political events, such as presidential elections. The study concludes that the Presidential Election Cycle Theory is applicable to Indonesia, necessitating its consideration by policymakers, investors, and all stakeholders.

Introduction

The presidential election is a political event that has a significant impact on various aspects of a country's economic activities. In Indonesia, general elections are governed by Republic of Indonesia Law No. 3 of 1999, which stipulates that general elections serve as a democratic mechanism to establish a sovereign government system rooted in the will of the people. A government formed through general elections derives its legitimacy from the people, operates in accordance with their aspirations, and is dedicated to their welfare. The Indonesian presidential election is a particularly significant event, as the nation adheres to a democratic system. A change in president is often anticipated to have an impact on the Indonesian economy.

The presidential election significantly impacts various aspects of a country, including its economy, where the capital market serves as a crucial indicator of economic health. As defined by Darmadji and Fakhruddin (2001), the capital market is a venue for trading long-term financial instruments such as stocks, bonds, warrants, and various derivatives. Meanwhile, the Islamic capital market involves the

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trading of securities in accordance with Sharia principles. In this case, Sharia's compliance stock is reflected not onlyly in its security but also in its trading mechanism, including the price mechanism. Tecualu and Megge (2009) argue that share prices can be influenced by several factors, both internal and external factors. Internal factors are those within a company's control, including company performance, changes in company strategy, mergers, announcements of financial reports, or company dividends. Meanwhile, Qoyum et al. (2021) state that external factors are influences from the broader environment that are beyond a company's control, such as the economic and political conditions of a country.

Capital market activities as part of economic activities cannot be separated from political influence. Political events do not directly disrupt the stock market, but these events are part of the information absorbed by capital market players and can be used to achieve expected profits in the future (Qoyum et al., 2021). This means that the influence of the non-economic environment cannot be separated from stock market activities which cause stock price fluctuations. Therefore, the Indonesian presidential election can have an impact on market sentiment and ultimately impact price movements and stock volume.

According to Samsul (2015), several factors influence stock prices, including 1) cash dividend distribution announcement, 2) stock split announcement, 3) rights issue announcement, 4) stock bonus or dividend share announcement, 5) warrant announcement, 6) merger and acquisition plan, 7) conflict of interest transaction plan, 8) changes in macro and micro variable, 9) international political events, 10) movements in the DJIA, Nikkei 225, and Hang Seng indices, 11) national political events, 12) Insider Information, 13) changes in the economic cycle indicated by leading indicators. These factors are often used as variables in research examining their influence on stock prices on the Indonesian stock exchange.

Therefore, from this point forward, political events, such as the presidential election, have a significant impact on stock prices. A strong relationship exists between stock market performance and political issues, as well as both non-economic factors and economic factors in countries worldwide (Diaconaşu et al., 2023; Khanthavit, 2020; Hoe & Nippani, 2017). Currently, Indonesia has held five presidential elections between 2004 and 2024. Indonesia, as a democratic country, exhibits a degree of political instability. Consequently, share movements on the Indonesian Stock Exchange are highly volatile and susceptible to both domestic and international economic and political factors.

In Indonesia, the stock market is broadly categorized into two types: Islamic and conventional. The Islamic stock market can be interpreted as a stock market that applies Sharia principles in its economic transaction activities and is free from prohibited elements. In contrast, the conventional stock market does not comply with Sharia principles. Conventional stock markets play a crucial role in the economy by facilitating corporate financing, capital allocation, and long-term investment. According to Darmadji and Fakhruddin (2001), the Jakarta Islamic Index (JII) serves as a benchmark for calculating the performance of Sharia-based investments. JII consists of 30 selected companies that comply with Sharia principles. In contrast, the LQ45 index consists of the 45 stocks with the highest trading activity.

The study examining the impact of the presidential election on the stock market is a compelling area of inquiry, particularly given the inconsistent results of prior studies. Prior studies on the impact of presidential elections on stock markets have yielded inconsistent results. Several studies found that there are impacts of the presidential election on the stock market (Blau et al., 2019; Diaconaşu et al., 2023; Khanthavit, 2020; Hoe & Nippani, 2017; Gbanador, 2022). In Indonesia, the presidential election affects the stock market (Utami & Qoyum, 2020; Putri et al., 2020; Khanifah et al., 2021). However, the other studies found no effects of the Indonesian presidential election on JII and LQ45 stocks (Zulfikar & Mayvita, 2017; Qoyum et al., 2017; Wibowo & Darmanto, 2019; Kirana & Sembel, 2019; Pujaastawan & Wiksuana, 2020) (Nugraha & Nugraha, 2020).

This study differs from previous studies. First, the study focuses on all presidential elections in Indonesia from 2004-2024. Second, the study also compares Islamic and conventional capital markets. Third, following Reilly and Brown (2009), this study employs the abnormal return indicator to examine stock price movements before, during, and after each presidential election. This study examines the influence of political events on the share prices of companies listed on the Jakarta Islamic Index (JII) and the LQ45, specifically focusing on those designated as permanent shares. This study compared the stock price reactions of Sharia-compliant and conventional shares before, during, and after the Indonesian presidential elections of 2004, 2009, 2014, 2019, and 2024. This study aims to address the question of whether Indonesian presidential elections have a significant impact on stock prices on the Indonesian Stock Exchange.

Literature Review and Hypothesis Development

To strengthen the findings of this study, the author sought to find the supporting theory and the previous studies relevant to the topic to be studied. Based on the search results, the authors have identified several relevant papers in the existing literature to be discussed.

Presidential Election Cycle Theory

The Presidential Election Cycle Theory, introduced by Hirsch (1968) in the Stock Trader's Almanac, posits a four-year pattern in the U.S. stock market correlated with the presidential election cycle (Nguyen & Roberge, 2008). The 4-year cycle, often referred to as the Kitchin Wave or the Presidential Election Cycle is the most well-known. The theory that aims to explain the connection between stock market trends and presidential elections is known as the Presidential Election Cycle Theory (Wong & McAleer, 2009). According to this theory, the stock market tends to be weak during the first two years of a presidential term, followed by a surge in the third year, and continued strength in the fourth year, although with a slight decline from the previous year.

Previous Studies

Previous studies corroborate the pattern proposed by J. A. Hirsch. (2022). A study by Bohl (2016) analyzing data between 1933 and 2015 reveals that on average, stock market performance, particularly the S&P 500, exhibits its strongest gains in the third year of a presidential term, with an average growth of 13.5%. The data also indicate a market recovery in the fourth year, though less robust than the third. This trend is corroborated by U.S. Bank's analysis, which shows that since 1943, the Dow Jones and S&P 500 have averaged a 15% gain in the third year, providing statistical support for this theory.

In addition, Modern Wealth Management and SoFi noted that the third year is often influenced by pro-economic government policies and aims to create positive sentiment among voters ahead of re-election (Nguyen & Roberge, 2008). However, the researchers also emphasized that while this pattern repeats itself historically, external factors such as global economic conditions and Federal Reserve policies play a significant role in determining market performance, thus this theory should be used as an additional guideline, not a sole predictive tool (Wong & McAleer, 2009).

The other previous studies indicate that presidential elections have a significant impact on the stock market, both in the United States and Indonesia. In the US, a study using the event study method by Blau et al. (2019) found that stocks, particularly in the pharmaceutical sector, declined before the election but increased sharply a few days before the results were announced. Diaconaşu et al. (2023) noted a consistent market correction after the election, despite the initial negative reaction. Khanthavit (2020) emphasized the significant reaction of the Thai market to the US election results, while Hoe and Nippani (2017) and Gbanador (2022) observed similar patterns in the Chinese and Nigerian stock markets.

In Indonesia, studies also demonstrated the varied impact of presidential elections on the stock market. Utami and Qoyum (2020) stated that the announcement of the president-elect is highly significant for Islamic investors in the JII index. However, a study on the LQ45 index by (Kirana & Sembel, 2019; Putri et al., 2020) found that significant differences emerge only after the announcement of election results, not before or after the election period. Qoyum et al. (2017) compared Islamic and conventional markets, finding that both markets are equally efficient with respect to abnormal returns. Meanwhile, Zulfikar and Mayvita, (2017) found a positive abnormal return in the Islamic market following the Jakarta gubernatorial election, while the LQ45 index experienced a price decline prior to the announcement.

Studies by Imelda et al. (2015) and Saragih et al. (2019) indicate that the impact of the election is sector-specific, with significant effects only in the financial, basic industry, and chemical sectors. Based on these findings, it is hypothesized that there is a significant difference in average abnormal return before and after elections on the stocks of companies listed in the JII and LQ45 indices between 2004 and 2024, underscoring the significance of elections as a factor affecting market sentiment and stock performance, particularly in emerging markets such as Indonesia.

Based on the previous studies and theory above, we propose the hypotheses on the relationship between presidential elections and stock markets. The hypothesis states that there is a difference in the average abnormal return of consistently listed companies on the JII and the LQ45 index before and after presidential elections between 2004 and 2024.

Research Methods

The research employs an event study methodology to investigate the stock market reactions to a political event. Reilly and Brown (2009) suggest that event study can be used to test semi-strong market efficiency by examining the speed with which stock prices react to significant economic events. According to Jogiyanto (2015), an event study examines the market reaction to an event with information published as an announcement. Event studies can analyze reactions to both internal and external information. In general, two indicators are commonly used in such a study, namely: abnormal return and trading volume activity.

Abnormal return measures the deviation between the expected return with the actual return. Trading volume activity (TVA) is intended to determine whether there is a significant increase in trading transactions during the event study Jogiyanto (2015). However, this study focused solely on abnormal returns to examine the stock market reactions to the presidential election. Stock price movements, as measured by abnormal returns, were used to assess this reaction (Blau et al., 2019). The calculation of abnormal return involves the following steps

The first step is finding the value of actual return ($R_{i,t}$), to determine the comparison between today's stock price with the previous stock price using the following formula:

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

Where:

$R_{i,t}$ = actual return of stock i at time t

$P_{i,t}$ = stock price at time t

$P_{i,t-1}$ = JII and LQ45 at time t-1

The second step is calculating the daily market return ($R_{m,t}$), this study used Jakarta Composite Index (JCI) data as daily market return, using the following formula:

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

Where:

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

JCI_t = JCI at day t

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

The third is calculating abnormal return ($AR_{i,t}$), to determine the difference between actual return and expected return, using the following formula:

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

Where:

$AR_{i,t}$ = Abnormal return of the stock i at time t

$R_{i,t}$ = Actual return of the stock i at time t

$E(R_{i,t})$ = Expected return of the stock i at time t ($E(R_{i,t}) = R_{m,t}$)

The fourth step is calculating the average abnormal return (AAR_t), to determine the average of abnormal return of all stocks at time t, using the following formula:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Data Descriptions

This study aims to analyze the stock market reaction to the presidential election in Indonesia by comparing Islamic stock and conventional stock. Sample selection was carried out using the purposive sampling method. Purposive sampling is a method of selecting participants based on specific criteria. In this study, it is used to identify particular groups capable of providing relevant information. The sample of Sharia-compliant stocks represents companies listed on the Jakarta Islamic Index (JII), while the sample of conventional stocks represents companies listed on the LQ45 index of the Indonesia Stock Exchange. The selection criteria include companies consistently listed on the JII and LQ45 during the five Indonesian presidential election periods between 2004 and 2024. These criteria were implemented to minimize potential sample bias.

Table 1. List of Stocks in the JII and LQ45 Indices

JII		LQ45	
INCO	Vale Indonesia Tbk	ASII	Astra International Tbk
INTP	Indocement Tunggal Prakarsa Tbk	BBCA	Bank Central Asia Tbk
KLBF	Kalbe Farma Tbk	INDF	Indofood Sukses Makmur Tbk
UNTR	United Tractors Tbk	INTP	Indocement Tunggal Prakarsa Tbk
UNVR	Unilever Indonesia Tbk	KLBF	Kalbe Farma Tbk
SMGR	Semen Indonesia (Persero) Tbk	UNTR	United Tractors Tbk
TLKM	Telekomunikasi Indonesia (Persero) Tbk	UNVR	Unilever Indonesia Tbk
PTBA	Tambang Batubara Bukit Asam (Persero) Tbk	SMGR	Semen Indonesia (Persero) Tbk
		TLKM	Telekomunikasi Indonesia (Persero) Tbk
		PTBA	Tambang Batubara Bukit Asam (Persero) Tbk

Table 1 presents the stock sample used in this study. Of the 30 stocks initially considered, 8 were consistently listed on the Jakarta Islamic Index (JII), while 10 were consistently listed on the LQ45 index. Seven stocks—INTP, KLBF, SMGR, TLKM, UNVR, UNTR, and PTBA—were consistently listed on both the JII and LQ45. Due to data limitations, INCO, SMGR, TLKM, and BBCA were excluded from the 2004 data sample. The research period is illustrated in Figure 1 below.

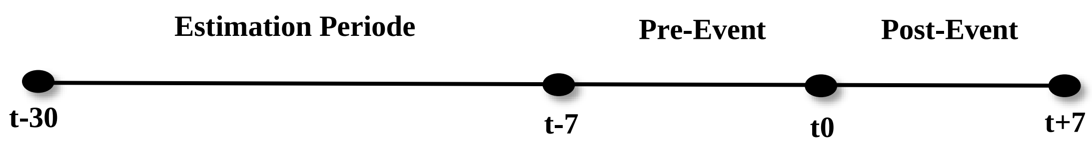

***Figure 1.* Periods of Research**

Figure 1 illustrates the closing stock price data used in this analysis. The research period encompasses seven days before and seven days after each of the five Indonesian presidential elections held between 2004 and 2024. The estimation period comprises the 30 days preceding each election. Table 2 presents the dates of these five presidential elections.

Table 2. Research Event Identification

Event	Date
2004 Presidential Election	July 5, 2004
2009 Presidential Election	July 8, 2009
2014 Presidential Election	July 9, 2014
2019 Presidential Election	April 17, 2019
2024 Presidential Election	February 14, 2024

Analysis and Discussion

Table 3 presents the Average Abnormal Return (AAR) of the Islamic Market (JII) and Conventional Market (LQ45) in response to the 5 presidential elections from 2004 until 2024. This testing aims to reveal whether political events have an effect on the market, as reflected in the market reaction. The result indicates that in the event of the general election (t-0), the Islamic market had a negative reaction in the 2009, 2014, and 2019 periods, reflected by AAR at -0,00296, -0,00089, and -0,00090 respectively. This suggests that the investor has an unfavorable sentiment toward the prospective president. This may be due to the incumbent candidate's projected victory as president. Meanwhile, for 2004 and 2024, there is no reaction from the market indicated by AAR at 0,00000 for both periods.

Nevertheless, the periods t-1 until t-7, before the 2014 presidential election (PE) indicated a predominantly positive effect for the PE. This suggests that in 2014, the market reacted favorably, as investors anticipated a new president with potentially different economic policies. This contrasts with the elections in the 2009, 2019, and 2024 periods, which saw predominantly negative market responses. These findings indicate that presidential elections without an incumbent candidate tend to convey more positive information to the market than those with an incumbent.

Table 3. Average Abnormal Return (AAR) for Stocks Listed in JII and LQ45

Periods	*Stock Listed in JII*				
	AAR				
	2024	2019	2014	2009	2004
t-7	0,00325	0,00062	-0,00148	-0,00447	-0,00731
t-6	-0,00336	-0,00021	0,00281	-0,00116	0,00141
t-5	0,00260	-0,00173	0,00405	0,00009	-0,00629
t-4	-0,00817	0,00132	0,00672	-0,00163	0,00205
t-3	-0,00263	0,00071	0,00113	-0,00151	-0,00464
t-2	-0,00244	-0,00243	0,01409	0,00037	0,00389
t-1	0,00080	-0,00059	-0,00264	-0,00162	0,01366
t0	0,00000	-0,00090	-0,00089	-0,00296	0,00000
t+1	0,00000	-0,00184	0,00023	-0,00621	-0,00194
t+2	-0,01433	0,00000	-0,00664	0,01037	0,01224
t+3	0,00362	0,00646	0,00114	0,00332	0,00315
t+4	-0,00806	0,00740	0,00428	-0,00397	-0,00333
t+5	-0,00913	-0,00139	0,00106	0,00419	0,01196
t+6	0,00667	-0,00752	-0,01020	0,01032	-0,00811
t+7	0,00296	0,00361	0,00167	0,00519	-0,00008

Periods	*Stock Listed in LQ45*
	AAR

	2024	2019	2014	2009	2004
t-7	0,00240	0,00189	-0,00344	-0,00552	-0,00768
t-6	0,00199	0,00309	0,00363	-0,00168	-0,00014
t-5	-0,00093	-0,00333	0,00544	-0,00067	-0,00971
t-4	-0,00095	-0,00320	-0,00056	-0,00172	0,00500
t-3	0,00072	-0,00569	0,00030	-0,00435	-0,00459
t-2	-0,01326	-0,00557	0,01324	0,00287	0,00207
t-1	-0,00014	0,00429	0,00042	-0,00506	0,01685
t0	0,00000	-0,00132	0,00000	0,00000	0,00000
t+1	0,00000	0,00060	0,00178	0,00512	-0,00605
t+2	-0,00173	0,00000	-0,00446	0,00718	0,01236
t+3	-0,00180	0,00441	0,00084	0,00752	-0,00114
t+4	-0,00202	0,00619	0,00156	-0,00569	0,00130
t+5	-0,00387	0,00177	-0,00270	0,01182	0,00629
t+6	0,00182	-0,00326	-0,00659	0,01366	-0,00622
t+7	-0,00131	0,00450	0,00173	-0,00013	0,00230

Different reactions are revealed by the conventional market (LQ45) in which in the Election event, all markets have no response on the election, except for PE 2019, indicated by AAR at 0.00060. The positive sign reflected that the Incumbent Candidate (Joko Widodo) has a positive effect on the market particularly for the LQ45 market, particularly after Presidential Election (0,00060, 0,00441, 0,00619, 0,00177, and 0,00450). This response has a relationship with the performance of President Joko Widodo in the first period as a president, and also the public perception of his leadership. The market reaction found by this study revealed this issue. From Table 3, the study also revealed that the Conventional market was more reactive to the information of PE compared to the Islamic market. It indicated 18 negative reactions before PE and 14 after PE for Islamic Market, compared to 19 before PE and 14 after PE for Conventional. This study supports the theoretical premise that Islamic stocks, after undergoing screening procedures, exhibit stronger fundamentals and, consequently, greater resilience compared to conventional stocks. This finding aligns with the theory of Islamic screening, which posits that firms are selected not only based on ethical values, as in socially responsible investing (SRI) screening, but also on financial performance. Therefore, it is logical to expect Islamic stocks to demonstrate greater resilience to political shocks than conventional stocks.

Table 4. **Cumulative Average Abnormal Return (CAAR) JII and LQ45**

Periods	*Stock Listed in JII*				
	CAAR				
	2024	**2019**	**2014**	**2009**	**2004**
t-7	0,00325	0,00062	-0,00148	-0,00447	-0,00731
t-6	-0,00336	-0,00021	0,00281	-0,00116	0,00141
t-5	0,00260	-0,00173	0,00405	0,00009	-0,00629
t-4	-0,00817	0,00132	0,00672	-0,00163	0,00205
t-3	-0,00263	0,00071	0,00113	-0,00151	-0,00464
t-2	-0,00244	-0,00243	0,01409	0,00037	0,00389
t-1	0,00080	-0,00059	-0,00264	-0,00162	0,01366

t0	0,00000	-0,00090	-0,00089	-0,00296	0,00000
t+1	0,00000	-0,00184	0,00023	-0,00621	-0,00194
t+2	-0,01433	0,00000	-0,00664	0,01037	0,01224
t+3	0,00362	0,00646	0,00114	0,00332	0,00315
t+4	-0,00806	0,00740	0,00428	-0,00397	-0,00333
t+5	-0,00913	-0,00139	0,00106	0,00419	0,01196
t+6	0,00667	-0,00752	-0,01020	0,01032	-0,00811
t+7	0,00296	0,00361	0,00167	0,00519	-0,00008

Periods	*Stock Listed in LQ45*				
	CAAR				
	2024	**2019**	**2014**	**2009**	**2004**
t-7	0,00024	0,00019	-0,00034	-0,00055	-0,00077
t-6	0,00020	0,00031	0,00036	-0,00017	-0,00001
t-5	-0,00009	-0,00033	0,00054	-0,00007	-0,00097
t-4	-0,00009	-0,00032	-0,00006	-0,00017	0,00050
t-3	0,00007	-0,00057	0,00003	-0,00044	-0,00046
t-2	-0,00133	-0,00056	0,00132	0,00029	0,00021
t-1	-0,00001	0,00043	0,00004	-0,00051	0,00168
t0	0,00000	-0,00013	0,00000	0,00000	0,00000
t+1	0,00000	0,00006	0,00018	0,00051	-0,00060
t+2	-0,00017	0,00000	-0,00045	0,00072	0,00124
t+3	-0,00018	0,00044	0,00008	0,00075	-0,00011
t+4	-0,00020	0,00062	0,00016	-0,00057	0,00013
t+5	-0,00039	0,00018	-0,00027	0,00118	0,00063
t+6	0,00018	-0,00033	-0,00066	0,00137	-0,00062
t+7	-0,00013	0,00045	0,00017	-0,00001	0,00023

This research, as documented in Table 4, reveals an interesting finding regarding the 2024 presidential election (PE). Despite the absence of incumbent candidates, the market reaction was predominantly negative, affecting both Islamic and conventional financial institutions, both before and after the election. This contrasts sharply with the 2014 PE (also without an incumbent), which saw a largely positive market response. This situation reflects the unique political dynamics of the 2024 election. Although President Joko Widodo was not a candidate, his influence was widely perceived as significant, particularly given his son's candidacy for vice president.

The AAR finding is further corroborated by the CAAR value. In 2024, the majority of CAAR values for PE were negative, with 16 instances indicating a negative market response, compared to only 10 in 2014. This suggests that the incumbent president's endorsement of presidential candidates has a significant impact on market response.This study revealed that the political situation, including the Presidential Election, has a significant effect on economic activity reflected by the Capital Market. It is normal, since according to Tecualu and Megge (2009) and, Qoyum et al. (2021) capital market is also determined by internal (financial performance) and external factors, like political issues.

The study also documented an interesting finding in which the political situation has a negative effect before the election, and then becomes positive after the election. It can be understood from the signaling theory, whereby a political event has a significant signal to the market, depending on the candidates. The presidential election is an important agenda that will have an impact on the economy in the future. Different presidents will have different economic policies. Therefore, it will affect the investor behavior. It is the same as the previous studies conducted by Blau et al. (2019), Diaconaşu et al. (2023), Khanthavit (2020), Hoe & Nippani (2017), Gbanador (2022), and Diaconaşu et al. (2023).

The presidential election has different effects on the Islamic and conventional stock. It is in line with the logic of the screening scenario of Islamic Stock, in which the stock that is classified as Islamic must fulfill some criteria, i.e. core business is halal, and financial performance. Hence, Islamic stock in this case has a better resilience compared to conventional stock in responding to a political event, such as a presidential election. This finding is supported by the study of Hassan et al. (2010); Mansor and Bhatti (2011); Hussein and Omran (2005); Arouri et al. (2013); El-Masry et al. (2016); Kabir and Thai (2017), Utami and Qoyum (2020), Kirana and Sembel (2019), Putri et al. (2020), and Khanifah et al. (2021).

The study revealed also that there is a difference in the average abnormal return before, and after the presidential election, in all presidential elections in Indonesia in 2004, 2009, 2014, 2019, and 2024, indicated by AAR and CAAR. It means that the presidential election, for capital market investors, has significant information especially relating to the future economic condition in Indonesia. It is also reflected by the existence of incumbents as candidates in the PE. Hence, from this result, it is crucial for the government to ensure that the PE is conducted fairly.

Conclusion

Based on empirical results, the presidential election has a different influence on sharia and conventional stocks. This happens because it is in line with the logic of the Sharia Stock screening scenario, where shares classified as Sharia must meet several criteria, such as halal. Therefore, sharia shares in this case have a greater resilience than conventional shares in responding to political events, such as presidential elections. This study also reveals that the political situation, including the Presidential Election, has a significant influence on economic activity as reflected in the Capital Market. This is illustrated by the political situation which often has a negative impact before the election, then becomes positive after the election. This can be understood to align with signaling theory, where political events have significant signals to the market, depending on the candidate. Therefore, the presidential election for capital market investors contains important information, particularly regarding the future condition of the Indonesian economy. This study also reveals that the Presidential Election Cycle Theory is relevant for Indonesian Investors, as the General election has a significant impact on the Market. The study recommends the investors compare political, financial, and non-financial information such as company performance based on annual reports before making investment decisions in the stock market. In addition, policymakers must be more aware of the issue of the Presidential election by preparing policies to mitigate the impact of the election on the capital market.

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