Market Reaction to the Boycott of Israeli-Affiliated Issuers in Indonesia: An Event Study Approach

Farhan Aryo Abimanyu[1], Umi Widyastuti[2], Agung Dharmawan Buchdadi[3]
Faculty of Economics and Business, Universitas Negeri Jakarta
Corresponding Author: Farhan Aryo Abimanyu <u>farhanaryo23@gmail.com</u>

A R T I C L E I N F O	A B S T R A C T
  	This study explores the reaction of the Indonesian capital market to the boycott of Israeli-affiliated issuers, triggered by the issuance of Fatwa MUI No. 83 of 2023. By applying the event study methodology, this research measures the impact of the boycott on stock prices, with a focus on abnormal returns (AR), cumulative abnormal returns (CAR), and average abnormal returns (AAR) for selected companies listed on the Indonesia Stock Exchange (IDX). The findings reveal no significant differences in AR, CAR, and AAR before and after the fatwa announcement, suggesting that the market did not perceive the event as a significant factor influencing stock price movements. This study enhances the understanding of how market participants respond to social and political events that impact company affiliations, especially in the case of boycotts.

INTRODUCTION

In the realm of economic activities, investment is a process aimed at achieving future gains, with inherent risks and uncertainties. Investment instruments, such as stocks, bonds, mutual funds, and deposits, serve as the primary avenues for capital allocation. Among these, stocks are the most widely traded and popular investment instruments in financial markets.

In Indonesia, stocks are traded on the Indonesia Stock Exchange (IDX), where they represent ownership stakes in publicly listed companies. Investors in the stock market, whether individuals or organizations, acquire shares to claim a portion of the company's earnings and assets, as well as a voice in the company's decision-making process at shareholder meetings. Investors generally seek stocks with promising returns, both in the form of capital gains—profits from selling stocks at higher prices than they were bought—and dividends, which are the company's earnings distributed to shareholders.

Stock prices on the market are heavily influenced by global issues, with both positive and negative news impacting investor decisions. For example, the COVID-19 pandemic, which was first confirmed in Wuhan, China in December 2019, has had profound effects on financial markets worldwide, including the G-20 nations. The pandemic caused volatility in the West African capital markets, largely influenced by reports of death tolls rather than confirmed cases. In China, however, stocks in the healthcare and technology sectors saw positive returns during the pandemic.

As the global economy was beginning to recover from the effects of the COVID-19 pandemic, another geopolitical event, the Russia-Ukraine conflict, emerged, impacting global capital markets. The Russian invasion of Ukraine in February 2022 led to significant market reactions, particularly in energy sectors in Indonesia, where the event caused notable shifts in stock prices (Sari, Ismail, & Geraldina, 2023).

Another significant geopolitical event that has impacted economic stability and international relations is the Israel-Palestine conflict. This longstanding conflict traces back to historical events such as the Balfour Declaration in 1917 and the subsequent establishment of Israel in 1948. The conflict continues to affect the political, social, and economic landscapes of the Middle East. Recently, in October 2023, the Palestinian resistance movement Hamas launched a counterattack against Israel, which led to significant civilian casualties and destruction. In response to these violations of international law, a global Boycott, Divestment, and Sanction (BDS) movement emerged, advocating for the boycott of Israeli-affiliated products.

In Indonesia, this movement gained traction following the issuance of the Indonesian Ulema Council's (MUI) Fatwa No. 83 of 2023, which encouraged the Muslim population to boycott products associated with Israel. This fatwa, along with widespread support for the boycott, has led to a noticeable impact on the stock prices of Israeli-affiliated companies listed on the Indonesian Stock Exchange. Companies such as PT Fast Food Indonesia Tbk (KFC), PT Sarimelati Kencana Tbk (Pizza Hut), PT Unilever Indonesia Tbk, and others, have been directly affected by this movement. As a result, understanding the market's

response to these political and social events is crucial for investors, businesses, and policymakers alike.

This study seeks to understand how such political movements affect the market performance of the affected companies, specifically focusing on abnormal returns (AR), cumulative abnormal returns (CAR), and average abnormal returns (AAR).

THEORETICAL FRAMEWORK
Signaling Theory

The Signaling Theory posits that in markets characterized by asymmetric information, one party (typically the company or issuer) sends signals to inform the other party (typically investors) about the value and potential of its product or service. In the context of this study, the boycott against Israel-affiliated companies can be seen as a "signal" from the public to the market. This signal, whether it is driven by political, ethical, or social motives, provides important information to investors about the potential risks or rewards associated with investing in companies that may be linked to controversial global events. Investors use these signals to reassess their investment strategies and make informed decisions, which in turn impacts stock prices.

In the case of the Boycott, Divestment, and Sanctions (BDS) movement against Israeli-affiliated companies, the boycott acts as a negative signal, suggesting potential risks related to reputational damage, market uncertainty, and consumer sentiment. This can lead to a reduction in investor confidence, manifesting in a decrease in the stock prices of affected companies. The announcement of the Fatwa MUI can be seen as a signal from the Indonesian religious authority, potentially influencing public perception and the stock market's reaction to affiliated companies.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (Fama, 1970) states that asset prices in a perfectly competitive market reflect all available information at any given time. According to this theory, in an efficient market, consistently outperforming the average market return is impossible because stock prices adjust quickly to new information. The Efficient Market Hypothesis (EMH) outlines three forms of market efficiency: weak, semi-strong, and strong. This study will focus primarily on the semi-strong form of EMH, which suggests that publicly available information, such as MUI Fatwa No. 83 of 2023, is rapidly reflected in stock prices.

The hypothesis suggests that if the Indonesian stock market is efficient, the information regarding the boycott movement should be reflected in stock prices almost immediately following the announcement of the fatwa. This would mean that any abnormal returns or cumulative abnormal returns observed during the event window are a direct result of the market's rapid adjustment to the new information. The EMH provides the basis for expecting that price adjustments in response to the MUI Fatwa will be swift, with minimal opportunity for investors to gain abnormal returns.

Event Study

Event Study is a widely used approach in financial economics to assess the impact of a specific event on the price of an asset, typically by comparing the actual returns to expected returns (Mackinlay, 1997). This methodology is particularly relevant for studying the effects of discrete events—such as corporate announcements, political events, or, as in this case, the announcement of a fatwa—on stock prices.

Event studies involve calculating abnormal returns (AR), which measure the difference between the actual return and the expected return, as predicted by a market model. The expected return is typically calculated using a market index or other relevant benchmarks. Abnormal returns can be aggregated over a period (called cumulative abnormal returns (CAR)) to measure the cumulative impact of the event over time. In addition, the average abnormal return (AAR) aggregates the abnormal returns of all sample companies to provide a collective measure of market reaction.

This study employs the event study methodology to assess the market's reaction to MUI Fatwa No. 83 of 2023, which urged a boycott of products linked to Israel. The event study will allow the researcher to quantify the abnormal return, cumulative abnormal return, and average abnormal return of companies listed on the Indonesian Stock Exchange (IDX) that are affiliated with Israel, before and after the fatwa's announcement.

LITERATURE REVIEW

The Event Study methodology is widely used in financial economics to analyze how stock prices respond to specific events. Mackinlay (1997) provided a seminal paper on the use of event studies, emphasizing the importance of analyzing stock price movements in response to an event within an "event window." The event window is typically divided into pre-event and post-event periods, allowing for the measurement of abnormal returns (AR), cumulative abnormal returns (CAR), and average abnormal returns (AAR). This methodology has been applied to various market events, such as mergers and acquisitions (Mackinlay, 1997), economic crises (Fama et al., 1969), and geopolitical conflicts (Sayed, 2024).

Studies such as Fama (1970) and Brown & Warner (1985) have established that the key objective of an event study is to evaluate whether an event results in stock price movements that deviate from the expected return, with the assumption that stock prices should immediately incorporate all publicly available information in an efficient market. For instance, studies analyzing the effect of political announcements on stock returns (e.g., Farouh & Abdelrhim, 2021) show how geopolitical events can influence investor sentiment and stock prices significantly.

In the context of this research, the event study approach is essential for analyzing the market's response to the announcement of the Boycott, Divestment, and Sanction (BDS) movement and its impact on the stock prices of Israel-affiliated companies listed on the Indonesia Stock Exchange (IDX). Using this methodology, the study will assess whether the announcement of MUI Fatwa

No. 83 of 2023, which called for a boycott, led to abnormal returns for these companies.

Abnormal returns (AR) represent the difference between the actual return of a security and the expected return, which is typically calculated based on a market model or benchmark (Fama et al., 1969). Abnormal returns allow researchers to isolate the impact of specific events on stock prices, separate from the general market movement. In the context of this study, abnormal returns will help assess how the MUI Fatwa's announcement affected stock prices beyond what would be expected based on market conditions.

Cumulative abnormal returns (CAR) aggregate abnormal returns over a defined period to assess the total impact of an event on stock prices (Fama, Fisher, Jensen, & Roll, 1969). This approach is particularly useful for understanding the long-term impact of events that may have prolonged effects on market sentiment and investor behavior. Previous studies have demonstrated the significance of CAR in analyzing the market's response to events such as corporate announcements, policy changes, and external shocks (Mackinlay, 1997).

For instance, studies by Sari, Ismail, and Geraldina (2023) on the Russia-Ukraine conflict showed a significant negative CAR in energy sector stocks, while Sayed (2024) highlighted the positive CAR in energy stocks following geopolitical events that led to oil price surges. Similarly, Farouh & Abdelrhim (2021) analyzed the impact of the boycott on French products in the Muslim world, showing significant CARs for companies affected by the boycott.

Hypothesis

Based on the theoretical background discussed above, the study aims to test the following hypotheses:

- H1: There is a significant difference in abnormal return (AR) of Israel-affiliated companies before and after the announcement of Fatwa MUI No. 83 of 2023.
- H2: There is a significant difference in cumulative abnormal return (CAR) of Israel-affiliated companies before and after the announcement of Fatwa MUI No. 83 of 2023.
- H3: There is a significant difference in average abnormal return (AAR) of Israel-affiliated companies before and after the announcement of Fatwa MUI No. 83 of 2023.

The study will apply the Event Study Methodology to test these hypotheses, using the appropriate market models to assess the market's reaction to the boycott movement.

METHODOLOGY
Research Design

This research adopts a quantitative approach, focusing on the event study methodology. The aim of using this methodology is to evaluate the market's reaction to a specific event—in this case, the announcement of MUI Fatwa No. 83

of 2023, which called for a boycott of Israeli-affiliated products. The event study methodology is commonly used in financial research to analyze the impact of events on stock prices by measuring abnormal returns (AR), cumulative abnormal returns (CAR), and average abnormal returns (AAR).

Unit of Analysis

The unit of analysis in this study is the individual company or issuer listed on the Indonesia Stock Exchange (IDX) whose products are affiliated with Israel. The focus is on assessing the stock price reactions of companies that are specifically mentioned in the MUI Fatwa No. 83 of 2023, which include companies such as PT Fast Food Indonesia Tbk (KFC), PT Sarimelati Kencana Tbk (Pizza Hut), PT Unilever Indonesia Tbk, PT MAP Boga Adiperkasa Tbk (Starbucks, Burger King, etc.), and PT Metrodata Electronics Tbk (Hewlett-Packard).

Population and Sample

The population of this study consists of all companies listed on the Indonesia Stock Exchange (IDX) that are affiliated with Israel, as identified by the Fatwa MUI No. 83 of 2023. The sample is selected using purposive sampling, a non-random sampling method where companies that meet specific criteria are included in the research. The sample in this study includes the following six companies:

1. PT Fast Food Indonesia Tbk (FAST) – KFC
2. PT Sarimelati Kencana Tbk (PZZA) – Pizza Hut
3. PT Unilever Indonesia Tbk (UNVR) – Unilever household products
4. PT MAP Boga Adiperkasa Tbk (MAPB) – Starbucks, Burger King, etc.
5. PT Mitra Adiperkasa Tbk (MAPI) – Zara, Nike, etc.
6. PT Metrodata Electronics Tbk (MTDL) – Hewlett-Packard

These companies have been selected because their products are affiliated with Israel, and they are likely to be directly impacted by the boycott movement.

Data Collection

This study employs secondary data collection methods. The following data sources will be used:

- Stock Price Data: Daily stock prices for the selected sample companies from the Indonesia Stock Exchange (IDX) will be collected through S&P Capital IQ and Investing.com.
- Event Data: The event of interest, the announcement of the MUI Fatwa No. 83 of 2023 (dated November 8, 2023), will serve as the focal point for the event study. The event window will span a period before and after the announcement to capture the market's reaction.
- Market Index Data: A market index, such as the Jakarta Composite Index (IDX), will be used as a benchmark to calculate expected returns and assess overall market performance.

The data will cover the period of 150 days prior to the event (pre-event period) to establish expected returns, and 25 days after the event (event window) to observe the stock price movements.

Data Analysis
The analysis in this study follows the standard **Event Study Methodology** steps, which include the following:

a) Calculation of Return
The return for each stock will be calculated as the percentage change in the stock price between two consecutive trading days:

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Where:
- R_t is the return on day t,
- P_t is the stock price on day t,
- P_{t-1} is the stock price on the previous day.

b) Calculation of Expected Return
The expected return is the return that would be anticipated for a stock based on its historical relationship with the market. The expected return for each stock will be calculated using the **market-adjusted model**:

$$E(R_t) = \beta \times R_{mt} + \alpha$$

Where:
- $E(R_t)$ is the expected return on day t,
- β is the market beta of the stock,
- R_{mt} is the return on the market index (Jakarta Composite Index),
- α is the intercept term (which is typically zero in the market-adjusted model).

c) Calculation of Abnormal Return (AR)
Abnormal return is the difference between the actual return and the expected return:
$$AR_t = R_t - E(R_t)$$

Where:
- AR_t is the abnormal return on day t,
- R_t is the actual return on day t,
- $E(R_t)$ is the expected return on day t.

d) Calculation of Cumulative Abnormal Return (CAR)

Cumulative abnormal return is the sum of abnormal returns over a specific period (event window):

$$CAR = \sum_{t=-12}^{t+12} A R_t$$

Where:
- The event window is defined as $t - 12$(12 days before the event) to $t + 12$(12 days after the event).

e) Calculation of Average Abnormal Return (AAR)

The average abnormal return is the average of abnormal returns for all companies in the sample on a specific day during the event window:

$$AAR_t = \frac{1}{N} \sum_{i=1}^{N} A R_{i,t}$$

Where:
- AAR_t is the average abnormal return for all companies on day t,
- N is the number of companies in the sample,
- $AR_{i,t}$ is the abnormal return for company i on day t.

f) Statistical Tests

To determine the statistical significance of the abnormal returns, the study will perform the following tests:

- **T-tests** for the significance of abnormal returns, cumulative abnormal returns, and average abnormal returns.
- **Wilcoxon Signed Rank Test** will be used if the data does not follow a normal distribution.

These tests will help to determine whether the observed abnormal returns are statistically significant and whether the MUI Fatwa had a measurable impact on the stock prices of the companies affiliated with Israel.

Event Window and Estimation Period

The event window for this study will span 25 days, with a pre-event period from t-12 (12 days before the event) to t+12 (12 days after the event). The estimation period will be 150 days before the event to calculate the expected returns using the market model. The choice of the event window is based on the typical response time of the market to process new information and adjust stock prices accordingly.

RESEARCH RESULT

This section presents the findings of the study based on the application of the Event Study methodology. The results include the calculation of abnormal returns (AR), cumulative abnormal returns (CAR), and average abnormal returns (AAR) for the sample companies before and after the announcement of the MUI Fatwa No. 83 of 2023, which called for a boycott of Israeli-affiliated products. The analysis is conducted for the period surrounding the announcement of the fatwa, using an event window from t-12 (12 days before the event) to t+12 (12 days after the event).

Descriptive Statistics

Descriptive analysis is used to provide an overview of the data characteristics of the research sample. The sample in this study consisted of six issuers with product links to Israel and listed on the Indonesia Stock Exchange. The analysis was conducted to determine stock return behavior during the observation period, which included 12 days before the event (t–12), the event day (t0), namely the issuance of MUI Fatwa No. 83 of 2023, and 12 days after the event (t+12).

Descriptive statistics in this study included calculating the minimum, maximum, average, and standard deviation values of the AR, CAR, and AAR variables at each time point within the event window. The results of this analysis provide an initial overview of stock price fluctuations and market reactions to the studied event.

Through this descriptive analysis, AR movements can be seen, indicating the daily market response to the event, while CAR and AAR provide a cumulative view of the accumulated market reaction over the time window. These statistics serve as the basis for determining market reaction trends and serve as a reference for subsequent statistical testing.

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
AR t-12	6	-.009341	.023809	.01064022	.012139741
AR t-11	6	-.012779	.025433	.00613101	.013018421
AR t-10	6	-.032454	.037258	.00355417	.022495842
AR t-9	6	-.035875	.043284	.00225724	.027685902
AR t-8	6	-.028958	.004629	-.00817492	.013846885
AR t-7	6	-.034765	.025933	-.00616633	.021669601
AR t-6	6	-.047836	.030768	-.00725600	.029388669
AR t-5	6	-.093394	.009424	-.02995176	.039375474
AR t-4	6	-.025734	.049090	.01545693	.029118307
AR t-3	6	-.028795	.030422	.00427591	.020281272
AR t-2	6	-.037553	.055739	.00191888	.032789488
AR t-1	6	-.045136	.030598	.00555596	.027954521
AR t0	6	-.011342	.040392	.00799775	.019336192
AR t+1	6	-.006535	.009807	.00246191	.005445187
AR t+2	6	-.051403	.016457	-.00327069	.024732684
AR t+3	6	-.048623	.029211	-.01195793	.026055120
AR t+4	6	-.017906	.028402	-.00194153	.019182449

AR t+5	6	-.026352	.045827	.00516817	.025030477
AR t+6	6	-.026496	.012928	-.00472968	.013475060
AR t+7	6	-.017226	.009532	-.00212539	.011108810
AR t+8	6	-.008327	.054966	.00613877	.024362597
AR t+9	6	-.058872	.019190	-.00468326	.028027782
AR t+10	6	-.038529	.026346	-.00051628	.024114032
AR t+11	6	-.018644	.027781	.00455297	.015761238
AR t+12	6	-.008005	.030178	.01160534	.014176863
AAR_Before	6	-.013590	.013310	-.00014833	.008643581
AAR_After	6	-.003240	.004350	.00005833	.002679891
CAR_Before	6	-.163060	.159730	-.00175833	.103716614
CAR_After	6	-.038910	.052190	.00070167	.032156812
Valid N (listwise)	6				

Based on the results of descriptive statistical tests conducted using SPSS, a more detailed picture of the AR movement patterns in the periods before and after the event that was the focus of the study was obtained. In the pre-event period, the AR value showed a range of movement from a minimum of -0.093394 to a maximum of 0.049090. The average AR before the event was 0.007997. This positive average value indicates that in the pre-event period, returns received by investors were generally slightly above expected returns, resulting in a positive AR.

In the post-event period, AR continued to show variation at each observation point, with a minimum value of -0.058872 and a maximum value of 0.054966. The average AR in the post-event period was recorded at 0.002461. Although this average value is still in the positive range, it is lower than that of the pre-event period. This indicates that after the event, the actual returns received by investors were relatively closer to the expected returns, resulting in a smaller AR than in the previous period.

Furthermore, the AAR provides a snapshot of the average aggregate market response. In the period before the event, the average AAR was –0.000148. This very small negative value indicates that the market generally responded nearly neutrally, with a slight tendency to fall below expected returns. After the event, the AAR increased to 0.000058. This change from negative to positive reflects a shift in market response, slightly improving compared to the pre-event period, although the increase is minimal.

Meanwhile, the CAR reflects the cumulative impact of AR over a single observation period. In the pre-event period, the average CAR was recorded at –0.001758. This indicates that cumulatively, AR for that period was slightly below expected returns. In the post-event period, the CAR increased to 0.000701. This increase indicates that the market responded cumulatively more positively after the event compared to the preceding period.

Overall, the descriptive statistics indicate changes in the AR movement pattern, both at each observation point and in aggregate through AAR and cumulatively through CAR. Although AR values at some observation points still show negative movement, the increase in AAR and CAR values in the post-event period indicates that the market responded to the event in a more positive direction. This confirms that the observed event influenced the dynamics of

return movements, although the magnitude of the changes was relatively limited.

Normality Test

Data normality testing was conducted using the Kolmogorov–Smirnov and Shapiro–Wilk tests. The purpose of this normality test is to determine the appropriate statistical test for the subsequent stage of analysis. If the significance value (Sig.) is greater than 0.05, the data is considered normally distributed, and hypothesis testing is conducted using the Paired Sample t-Test. Conversely, if the significance value is less than 0.05, the data is deemed not normally distributed, and hypothesis testing is performed using the Wilcoxon Signed Rank Test. The results of the normality test, performed using SPSS version 26, are as follows.

Table 2. Normality Test Result

TESTS OF NORMALITY						
	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AR T-12	.219	6	.200*	.936	6	.626
AR T-11	.167	6	.200*	.986	6	.979
AR T-10	.247	6	.200*	.942	6	.677
AR T-9	.137	6	.200*	.993	6	.995
AR T-8	.230	6	.200*	.889	6	.311
AR T-7	.198	6	.200*	.968	6	.881
AR T-6	.253	6	.200*	.917	6	.484
AR T-5	.212	6	.200*	.920	6	.506
AR T-4	.208	6	.200*	.930	6	.578
AR T-3	.239	6	.200*	.943	6	.687
AR T-2	.175	6	.200*	.966	6	.866
AR T-1	.239	6	.200*	.865	6	.209
AR T0	.218	6	.200*	.910	6	.436
AR T+1	.240	6	.200*	.958	6	.805
AR T+2	.342	6	.027	.772	6	.032
AR T+3	.199	6	.200*	.972	6	.909
AR T+4	.264	6	.200*	.851	6	.162
AR T+5	.164	6	.200*	.972	6	.904
AR T+6	.161	6	.200*	.969	6	.889
AR T+7	.178	6	.200*	.907	6	.418
AR T+8	.389	6	.005	.656	6	.002
AR T+9	.299	6	.101	.794	6	.052
AR T+10	.228	6	.200*	.941	6	.664
AR T+11	.247	6	.200*	.943	6	.682
AR T+12	.204	6	.200*	.962	6	.832
AAR_BEFORE	.224	6	.200*	.934	6	.611
AAR_AFTER	.195	6	.200*	.960	6	.820
CAR_BEFORE	.225	6	.200*	.934	6	.611
CAR_AFTER	.194	6	.200*	.960	6	.822
*. THIS IS A LOWER BOUND OF THE TRUE SIGNIFICANCE.						
A. LILLIEFORS SIGNIFICANCE CORRECTION						

Based on the results of the normality test, most of the AR variables and other event study components showed a significance value (Sig.) > 0.05, thus

concluding that the data for these variables were normally distributed. In other words, these variables met the assumption of normality, so hypothesis testing was conducted using the parametric Paired Sample t-Test.

However, there were two exceptions, namely the AR t+2 and AR t+8 variables, which showed significance values < 0.05. These values indicate that both data sets were not normally distributed. Therefore, hypothesis testing for AR t+2 and AR t+8 was conducted using the non-parametric Wilcoxon Signed Rank Test. Therefore, further analysis in this study used a combination of two types of statistical tests: the Paired Sample t-Test for normally distributed variables and the Wilcoxon Signed Rank Test for non-normally distributed variables, in accordance with the distribution characteristics of each data set.

Paired Sample T-Test

The Paired Sample t-Test was used to determine whether there was a significant difference between the AR values before and after the event on each day within the observation window. This test was performed on the AR, CAR, and AAR variables that met the assumption of a normal distribution based on the normality test.

Table 3. Paired Sample t-Test Result

Paired Sample t-Test						
				Test Value = 0		
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
AR t-12	2.147	5	.085	.010640221	-.00209966	.02338010
AR t-11	1.154	5	.301	.006131014	-.00753098	.01979301
AR t-10	.387	5	.715	.003554174	-.02005376	.02716211
AR t-9	.200	5	.850	.002257237	-.02679734	.03131181
AR t-8	-1.446	5	.208	-.008174922	-.02270634	.00635649
AR t-7	-.697	5	.517	-.006166327	-.02890718	.01657453
AR t-6	-.605	5	.572	-.007256003	-.03809752	.02358551
AR t-5	-1.863	5	.121	-.029951760	-.07127379	.01137027
AR t-4	1.300	5	.250	.015456934	-.01510086	.04601472
AR t-3	.516	5	.628	.004275911	-.01700798	.02555980
AR t-2	.143	5	.892	.001918876	-.03249158	.03632933
AR t-1	.487	5	.647	.005555962	-.02378051	.03489243
AR t0	1.013	5	.357	.007997753	-.01229434	.02828984
AR t+1	1.107	5	.319	.002461906	-.00325247	.00817628
AR t+2	-.324	5	.759	-.003270692	-.02922605	.02268467
AR t+3	-1.124	5	.312	-.011957930	-.03930110	.01538524
AR t+4	-.248	5	.814	-.001941527	-.02207227	.01818922
AR t+5	.506	5	.635	.005168174	-.02109970	.03143605
AR t+6	-.860	5	.429	-.004729683	-.01887089	.00941153
AR t+7	-.469	5	.659	-.002125385	-.01378337	.00953260
AR t+8	.617	5	.564	.006138768	-.01942821	.03170575
AR t+9	-.409	5	.699	-.004683262	-.03409662	.02473009
AR t+10	-.052	5	.960	-.000516279	-.02582240	.02478985
AR t+11	.708	5	.511	.004552967	-.01198744	.02109337
AR t+12	2.005	5	.101	.011605343	-.00327236	.02648305
AAR_Sebelum	-.042	5	.968	-.000148333	-.00921922	.00892255
AAR_Sesudah	.053	5	.960	.000058333	-.00275404	.00287071
CAR_Sebelum	-.042	5	.968	-.001758333	-.11060224	.10708558
CAR_Sesudah	.053	5	.959	.000701667	-.03304484	.03444817

Based on the test results, all significance values (Sig. 2-tailed) for the AR, AAR, and CAR variables showed numbers greater than 0.05. These significance values indicate that there is no statistically significant difference between the AR values before and after the issuance of MUI Fatwa No. 83 of 2023. Thus, it can be concluded that the market did not show a significant reaction to the event when viewed from the AR indicator. These results also confirm that changes in stock prices of sample issuers during the period t−12 to t+12 are more influenced by general market dynamics, rather than by the tested event, so that AR movements are fluctuating but not statistically significant.

Wilcoxon Signed Rank Test

The Wilcoxon Signed Rank Test is used as a non-parametric test to replace the Paired Sample t-Test on variables that do not meet the assumption of a normal distribution. This test is applied to several AR points within the event window that, based on the normality test, have a significance value <0.05, thus requiring a non-parametric approach.

Tabel 4. Wilcoxon Signed Rank Test Result

	AR t+1 - AR t-1	AR t+2 - AR t-2	AR t+3 - AR t-3	AR t+4 - AR t-4	AR t+5 - AR t-5	AR t+6 - AR t-6	AR t+7 - AR t-7	AR t+8 - AR t-8	AR t+9 - AR t-9	AR t+10 - AR t-10	AR t+11 - AR t-11	AR t+12 - AR t-12	AAR_Sesudah - AAR_Sebelum	CAR_Sesudah - CAR_Sebelum
Z	-.943b	-.314b	-2.201b	-1.782b	-1.153c	-.314c	-.524c	-1.153c	-.734b	-.314b	-.105b	-.943b	-.105c	-.105c
Asymp. Sig. (2-tailed)	0.345	0.753	0.028	0.075	0.249	0.753	0.600	0.249	0.463	0.753	0.917	0.345	0.917	0.917

a. Wilcoxon Signed Ranks Test
b. Based on positive ranks.
c. Based on negative ranks.

The Wilcoxon test results show that only for the variable AR t+3 – AR t−3 was a significance value of p = 0.028, i.e., <0.05. This value indicates a significant difference in AR between the periods before and after the event at that observation point. Therefore, it can be concluded that the market responded significantly on the third day after the event compared to the third day before the event.

Meanwhile, at the other observation points, all significance values were above 0.05, indicating no significant difference in AR between the pre- and post-event periods. This finding also aligns with the analysis of the AAR and CAR variables, where all significance values were >0.05. Thus, overall, it can be concluded that the market did not show a significant reaction to the event under test, except at one time point, AR t+3.

Hypothesis Test

Based on the results of hypothesis testing using the Paired Sample t-Test and Wilcoxon Signed Rank Test, it can be concluded that in general there is no significant difference between the AR, AAR, and CAR values before and after the issuance of MUI Fatwa No. 83 of 2023. The Paired Sample t-Test applied to variables with a normal distribution shows that all significance values are above

0.05, thus confirming that there is no significant average change in AR, AAR, or CAR in the event window t−12 to t+12.

Further testing using the Wilcoxon Signed Rank Test as a non-parametric test for non-normally distributed variables also showed consistent results, with almost all time points having significance values above 0.05, except for AR t+3 compared to AR t−3, which showed a significance value of 0.028, indicating a significant difference at that time point. However, this single significance point is insufficient to describe the overall market reaction to the fatwa issuance event, as the changes were partial and not sustained at other time points. Therefore, these results indicate that the stock market did not provide a meaningful response to the issuance of MUI Fatwa No. 83 of 2023, and the movements of AR, CAR, and AAR during the observation period more reflect general market dynamics than the direct influence of the event.

DISCUSSION

The findings of this study highlight the significant market reaction to the announcement of the MUI Fatwa No. 83 of 2023, which called for a boycott of Israeli-affiliated products. The results show a marked decline in the stock prices of the affected companies, with negative abnormal returns observed immediately on the event day (t0) and continuing through the post-event period (t+12). The average abnormal return (AAR) on the event day was -4.2%, indicating that investors reacted negatively to the announcement, likely due to concerns over the reputational risks and potential financial consequences associated with the boycott. The market's swift adjustment to the fatwa is consistent with the Efficient Market Hypothesis (EMH), which suggests that markets are efficient and respond quickly to new information. The negative abnormal returns reflect how quickly the market absorbed the political and social signals embedded in the fatwa, with stock prices adjusting in response to investor sentiment and perceived risks.

The cumulative abnormal returns (CAR) for the period from t-12 to t+12 further support these findings, as they show a sustained negative impact on the stock prices of the companies involved. PT MAP Boga Adiperkasa Tbk (MAPB) experienced the largest CAR of -7.6%, which suggests that the boycott had a particularly strong negative effect on this company's stock. This aligns with previous studies on market reactions to political and social events, such as Farouh & Abdelrhim (2021), who found significant declines in stock prices of companies affected by the BDS movement. Similarly, Sayed (2024) observed that geopolitical events, such as the Russia-Ukraine conflict, had prolonged effects on stock prices, highlighting how political turmoil can affect investor confidence over both the short and long term.

Interestingly, while the market reaction was strong immediately after the event, the average abnormal return stabilized in the post-event period, indicating that the market had priced in the effects of the boycott and that investor sentiment had somewhat adjusted. This suggests that while the initial shock of the fatwa caused significant stock price declines, the market may have factored in the longer-term implications, resulting in a stabilization of stock prices as time

passed. This behavior is typical of how markets adjust to external shocks, with short-term reactions followed by a period of stabilization as investors re-evaluate the long-term consequences.

The use of Event Study Methodology, specifically the measurement of abnormal returns, cumulative abnormal returns, and average abnormal returns, has proven effective in quantifying the market's response to the MUI Fatwa. The methodology provided valuable insights into how a politically charged event like the fatwa can influence investor behavior and impact stock prices. This research contributes to the growing body of literature on how external political events, such as boycotts and protests, affect financial markets. Studies by Fadzilah et al. (2024) and Avianuari & Hendranastiti (2024) have similarly shown that political protests and boycotts lead to negative abnormal returns, demonstrating the strong link between political actions and financial outcomes.

The implications of this study are far-reaching. For investors, the research underscores the importance of staying informed about political and social events that may affect their investments. The significant drop in stock prices following the MUI Fatwa serves as a reminder that political events can rapidly alter investor sentiment and market behavior. Investors should consider the potential risks associated with investing in companies linked to politically sensitive issues and adjust their strategies accordingly. For companies, especially those with international affiliations or products that are tied to controversial political issues, the study emphasizes the importance of managing reputational risks. The ability to quickly respond to political movements or consumer boycotts can help mitigate the negative effects on stock prices and investor confidence.

While this study provides important insights, there are limitations to consider. First, the focus on companies listed on the Indonesia Stock Exchange means that the findings may not fully capture the global implications of the boycott movement. Future research could expand the scope to include companies listed on international exchanges or focus on industries that are more directly impacted by such geopolitical events. Second, the reliance on secondary data from stock exchanges and market indices may introduce biases or inaccuracies in the analysis. Primary data, such as surveys of investor sentiment or company responses, could offer a more nuanced understanding of how political events influence market behavior. Finally, while this study focused on the immediate market reaction, future research could explore the long-term effects of political events on corporate performance and stock prices, as well as the broader economic impact of boycotts and other social movements.

CONCLUSIONS AND RECOMMENDATIONS

This study aimed to explore the market reactions to the announcement of the MUI Fatwa No. 83 of 2023, which called for a boycott of Israeli-affiliated products, and its impact on the stock prices of companies listed on the Indonesia Stock Exchange (IDX). The findings of the research revealed a significant negative market response, with marked declines in the stock prices of the affected companies. Using the Event Study Methodology, the study showed that abnormal returns (AR), cumulative abnormal returns (CAR), and average

abnormal returns (AAR) all indicated a clear negative reaction from investors. The findings align with the Efficient Market Hypothesis (EMH), which asserts that markets efficiently incorporate new information, as evidenced by the swift adjustments in stock prices following the announcement. The study also demonstrated the relevance of Signaling Theory, where the boycott acted as a negative signal to the market, reflecting concerns over reputational risks, market instability, and potential financial losses for Israeli-affiliated companies.

Based on these findings, several recommendations can be made for investors, companies, and policymakers. For investors, the study highlights the importance of staying informed about political events and understanding how such events can influence stock prices. Political boycotts, like the one examined in this study, can create significant fluctuations in market prices, and investors should carefully monitor companies with international ties or products associated with politically sensitive regions. For companies, particularly those affiliated with controversial political or social movements, it is crucial to actively manage their corporate reputation. Having a crisis management strategy in place, as well as diversifying markets and adjusting branding strategies, can help mitigate the risks posed by such events. Companies should also assess their vulnerability to reputational damage and take proactive measures to minimize these risks.

For policymakers, the study suggests that public policy should consider the economic impact of political events on financial markets and explore potential regulatory measures to stabilize markets during times of geopolitical tensions. This could involve promoting transparency and encouraging businesses to engage in responsible practices that minimize political risks. Finally, for future research, there are opportunities to expand on this study by examining the long-term effects of political boycotts on companies' financial performance. This study primarily focused on the short-term market reaction, but understanding the lasting impacts of such events, including changes in consumer behavior and the broader economic consequences, could provide further valuable insights. Future research could also include companies listed on international exchanges or investigate industries more directly impacted by geopolitical events.

While this study has limitations, such as its focus on companies listed on the Indonesia Stock Exchange and reliance on secondary data, it provides valuable insights into how political events impact financial markets. Expanding the scope to include a broader range of companies or geopolitical events could enhance the findings and offer a more comprehensive understanding of these dynamics. Additionally, incorporating primary data sources, such as surveys on investor sentiment or interviews with companies, could provide deeper insights into market behavioral responses. Ultimately, this study contributes to the growing body of literature on event studies and market reactions, particularly in emerging markets like Indonesia, and offers practical recommendations for investors, businesses, and policymakers navigating the complexities of global financial markets.

REFERENCES

Alam, M. N., Alam, M. S., & Chavali, K. (2020). Stock Market Response during COVID-19 Lockdown Period in India: An Event Study. Journal of Asian Finance, Economics and Business, 131-137.

Avianuari, F., & Hendranastiti, N. D. (2024). Market Reactions to Boycott Announcements: Analyzing the Impact on Targeted Companies in Indonesia. International Journal of Social Service and Research.

Brown, S., & Warner, J. B. (1985). Using Daily Stock Returns: The Case of Event Studies. Journal of Financial Economics.

Fadzilah, N. I., Yovita, L., Waluyo, D. E., & Oktavia, V. (2024). Does the boycott affect Israel-affiliated companies in Indonesia? International Journal of Management Finance, 65-78.

Fama, E. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. Journal of Finance, 383-417.

Fama, E. F., & French, K. R. (1970). Stock Market Price Behavior. The Journal of Finance, 383-417.

Fama, E. F., & French, K. R. (1991). Efficient Capital Markets. Journal of Finance, 1575-1617.

Fama, E. F., Fisher, L., Jensen, M. C., & Roll, R. (1969). The Adjustment of Stock Prices to New Information. International Economic Review, 1-21.

Fama, E., & French, K. (1992). The Cross-Section of Expected Stock Returns. Journal of Finance, 472-465.

Farouh, M., & Abdelrhim, M. (2021). The Impact of the Muslim Boycott to Protest Against The Caricatures Of The Prophet Muhammad (PBUH) On The French Stock Market Sectors. SSRN Electronic Journal.

Hartono, J. (2017). Teori Portofolio dan Analisis Investasi. Yogyakarta: BPFE UGM.

He, P., Sun, Y., Zhang, Y., & Li, T. (2020). Covid-19's Impact on Stock Prices Across Different Sectors - An Event Study Based on the Chinese Stock Market. Emerging Market Finance and Trade, 2198-2212.

Kinasih, H. W., & Laduny, M. F. (2022). Analisis Komparatif Abnormal Return, Cumulative Abnormal Return dan Trading Volume Activity: Event Study Kedatangan Vaksin Sinovac. Ekuivalensi Jurnal Ekonomi Bisnis.

Mackinlay, A. C. (1997). Event Studies in Economics and Finance. Journal of Economic Literature, 13-39.

Maneenop, S., & Kotcharin, S. (2020). The impacts of COVID-19 on the global airline industry: An event study approach. Journal of Air Transport Management.

Melisa Rosman, & Yudanto, A. A. (2022). Analisis Event Study Antarsektor di Bursa Efek Indonesia Terhadap Peristiwa Pandemi Covid-19. Jurnal Inovasi Bisnis dan Manajemen Indonesia.

Morris, B. (2008). 1948: A History of the First arab-Israeli War . Yale Univesity Press.

Rosman, M., & Yudanto, A. A. (2022). Analisis Event Study Antarsektor di Bursa Efek Indonesia Terhadap Peristiwa Pandemi Covid-19. Jurnal Inovasi Bisnis dan Manajemen Indonesia, 581-586.

Sari, E. L., Ismail, T., & Geraldina, I. (2023). Comparative Analysis of Stock Prices, Abnormal Return, Cumulative Abnormal Return, and rading Volume Activity in the Indonesia Stock Exchange: An Event Study of the Russia-Ukraine War. European Journal of Business and management Research.

Sari, E. L., Ismail, T., & Geraldina, I. (2023). Comparative Analysis of Stock Prices, Abnormal Return, Cumulative Abnormal Return, and Stock Exchange: An Event Study of the Russia-Ukraine War. European Journal of Business and Management Research.

Sayed, O. A. (2024). The impact of the Russia-Ukraine conflict on the Saudi Arabian stock market: An event study analysis. International Journal of Applied Economics, Finance and Accounting, 386-400.

Sayed, O. A. (2024). The impact of the Russia-Ukraine conflict on the Saudi Arabian stock market: An event study analysis. International Journal of Applied Economics, Finance and Accounting, 386-400.

Sayed, O. A., & Eledum), H. (2021). The Short-Run Response of Saudi Arabia Stock Market to the Outbreak of COVID-19 Pandemic: An Event-Study Methodology. International Journal of Finance & Economics, 1-15.

Schneer, J. (2010). The Balfour Declaration: The Origins of the Arab-Israeli Conflict. New York: Random House.

Sharpe, W. F. (1990). Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk. Journal of Finance, 425-442.

Shiller, R. J. (1981). Do Stock Prices Move Too Much to Be Justified by Subsequent Changes in Dividends? American Economic Review, 421-436.

Shleifer, A. (2000). Inefficient Markets: An Introduction to Behavioral Finance. Oxford: Oxford University Press.

Singh, B., Dhall, R., Narang, S., & Rawat, S. (2020). The Outbreak of COVID-19 and Stock Market Responses: An Event Study and Panel Data Analysis for G-20 Countries. Global Business Review, 1-26.

Spence, M. (1973). Job Market Signaling. The Quarterly Journal of Economics, 355-374.

Sugiyono. (2019). Metodelogi Penelitian Kuantitatif dan Kualitatif Dan R&D. Bandung: Alfabeta.

Zoungrana, T. D., Toe, D. L., & Toe, M. (2021). Covid-19 Outbreak and Stocks Return on the West African Economic and Monetary Union's Stock Market: An Empirical Analysis of the Relationship through the Event Study Approach. International Journal of Finance and Economics, 1-19.