International Journal of Multidisciplinary Research and Growth Evaluation.

Capital Market Reaction to the Covid-19 Pandemic

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Article Info

ISSN (online): 2582-7138
Volume: 03
Issue: 05
September-October 2022
Received: 21-07-2022;
Accepted: 10-08-2022
Page No: 06-10

Abstract
The covid-19 pandemic impacted all types of economic businesses in the global economy, including the capital market. One of the effects was being able to lower stock prices (Composite Stock Price Index) and all sectors of the capital market in general. During the evaluation period in March 2020, the issuer's initial reaction on March 17, 2020 was that stock prices would fall simultaneously in all stock exchange sectors. The consumer goods industry sector became the best sector in dealing with the covid-19 pandemic. This was also supported by the business sector types of each issuer in this sector. Mining sector stocks could improve their stock performance making the lowest stock price in March only temporary and the issuers in this sector could easily raise their stock prices again. Meanwhile, the basic and chemical industries, infrastructure, utilities, transportation and other industrial sectors took more than two weeks to raise their stock prices.

Keywords: Capital Market, Covid-19 Impact, Stock Prices, IDX

Introduction

The corona virus pandemic is not just a health disaster, the virus known as covid-19 has caused chaos in the economic sector (Nalini, 2021) [7]. The current covid-19 pandemic has had an impact on various sectors. At the global economic level, this pandemic has had a significant impact on the domestic economy of nation-states. The Organization for Economic Co-operation and Development (OECD) report states that this pandemic has implications for the threat of a fairly large economic crisis which is marked by the discontinuation of production activities in various countries, falling levels of public consumption, loss of consumer confidence and the collapse of the stock market which ultimately leads to the uncertainty.

The increasing of interdependence between developing and developed countries as a consequence of the spread of covid-19 which indicates the increasing transmission of pressure and uncertainty among financial markets during the pandemic. When considering securities in terms of foreign investment, the OECD (2020) highlighted the large cross-border variation in foreign direct and portfolio investment, reproduced a familiar pattern in which international investors transfer the capital back to them or invested in safer assets over the uncertainty period (Giofré, 2022) [4].

The capital market is one of the country's economy drivers, because it is a place for capital formation and long-term accumulation of funds, in addition that it also represents the condition of companies located in a country (Suad Husnan, 2012). The capital market can experience an increase (bullish) or a decrease (bearish) which can be seen from the ups and downs of stock prices as reflected in the movement of the index or better known as the Composite Stock Price Index. It is an index which is used to measure the performance of stocks (companies/issuers) listed on the Indonesia Stock Exchange (IDX). The changes that occur in stock prices are a reflection of the company's performance itself as well as a response to various macroeconomic factors in Indonesia (Alfira, Fasa, & Suharto, 2021) [1].

On December 31, 2019, WHO officially received a report from China regarding the initial case of covid-19 which first appeared in Wuhan. The virus spreaded very quickly to various countries including Indonesia in early March 2020 (NEWS, 2020). Various efforts had been made by the Indonesian government in order to prevent the virus, among them were the implementation of health protocols in the form of physical distancing, the use of masks when traveling outside the home, closing schools, working from home and so on.

Not only has an impact on the world of health, but also for the country's economy, one of the impacts of the chaos in the Indonesian economy is the drop in the Composite Stock Price Index on the Indonesia Stock Exchange caused by the massive sales from investors because of their concerns over the covid-19 virus. But the stock market can still survive even though the economy is down because Islamic stocks have transaction power making them remain stable and the instruments are less volatile. Stock Exchanges and Composite Stock Price Index are much better at dealing with crises and economic recessions which can be seen in terms of management and risk when compared to other companies that apply conventional principles (Lathifah *et al*., 2021) [5].

The covid-19 pandemic has a negative impact on the company's operations, resulting in a sharp decline in its profits and even losses. The unstable condition of the company becomes a negative signal for investors which in turn resulted in its stock price experiencing a very significant decline. These results support the research of (Nurmasari, 2020) which shows that there has been a significant decline in stock prices compared to the one before the covid-19 pandemic in Indonesia.

Indonesia as one of the countries which "infected" the covid-19 outbreak tries to find a solution to break the chain of this virus spread. In this case, the Government has formulated several strategies to prevent the spread of this virus, one of which is physical distancing. To increase the effectiveness of physical distancing, the Government provides an opportunity for local governments to apply for Large-Scale Social Restrictions (Aprillita & Hikmah Perkasa, 2021) [2].

This study tried to see the impact of the stock market on the Indonesia Stock Exchange and the stock market conditions related to this pandemic. The data used was for the first semester (January-June) in 2020. The main purpose of this study was to explore how the stock market responded to the covid-19 pandemic. This pandemic brought extreme uncertainty related to how deadly this virus was. There were allegations that there was an investor reaction in the capital market and this was accompanied by unprecedented volatility in which the stock market moved up and down along with this virus updates.

Literature Review

The termination of employment has an impact on unemployment, difficulty in finding work and the increasing of poverty. The covid-19 virus then appeared and gave so much influence in various sectors. One of the sectors affected was the economic sector. This became a current issue and therefore the writer interested in discussing the challenges faced by the Indonesian economy because of this virus. (Sumarni, 2020) [13].

In general, the capital market is an organized financial system which includes commercial banks and all intermediary institutions in the financial sector, as well as all outstanding securities.

A market is said to be efficient if the prices of its securities reflect all relevant information immediately. Therefore, the concept of efficiency is more accurately interpreted as a continuum concept, not a dichotomy. The faster a market reacts to new information, the more efficient the market will be (Octavera & Rahadi, 2021) [9].

Actually, financial system stability does not have a concrete definition which has been accepted both nationally and internationally. Thus there are several definitions of it which basically say that a financial system or financial institution enters a stage which is not always stable and at some time the system interferes economic activity. Below are several definitions of Financial System Stability taken from various narratives, including:

A stable financial system is able to locate sources of funds (financial) and absorb the budget occurs in preventing disruption to real activities in the financial system. The stable financial system is the one that is strong and resistant to various economic disturbances, thus it is able to carry out the intermediation function (Russiadi, Aprilia, Adianti, & Verawati, 2020) [10].

Signal theory is a general phenomenon which can be applied in any market with asymmetry information, including the capital market. This Information in the capital market can occur because the company has more information than its external parties. The information in this study was financial statements which could be used by investors as a signal in assessing the company's performance (Wenno, 2020) [14].

Methodology

The research method used in this study was a qualitative descriptive analysis. By describing the phenomena which occured because of the corona virus impact (covid-19) on the global economy. Considering the material and research which were still inadequate, the writer would describe the results of the research through several sources and draw conclusions from several related articles and journals.

Results and Discussion

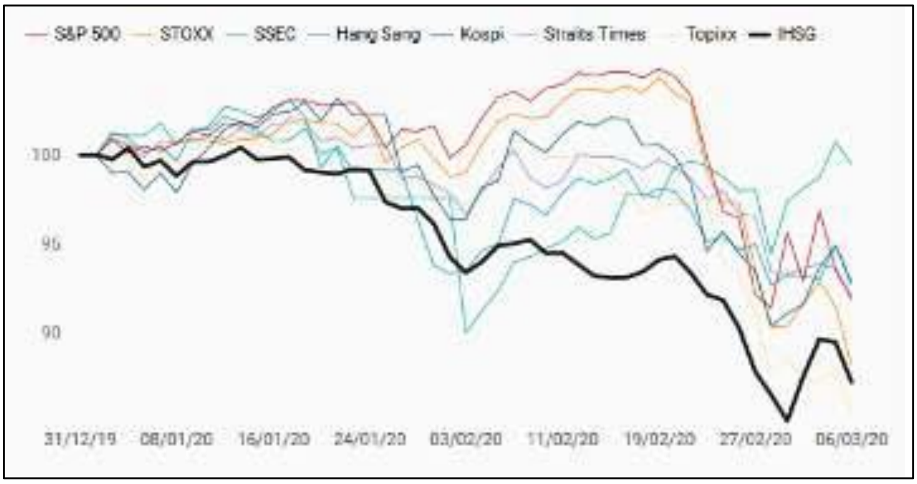
In the first quarter of the last few months in 2020, there were several global economic fluctuations from the financial sector to the gold exchange rate which got a high increasing. In addition, there was also penetration in the Chicago Board Options Exchange (CBOE). Therefore, in this discussion, the writer looked at the impact of covid-19 on the global economy affecting 3 sectors, they were the stock market, debt securities and the value of gold. Apart from those sectors, the domestic market was also affected because most of Indonesia's export-import transactions came from China (Nurabdi, Inst, & Usal, n.d.).

***Source*:** Tirta Citradi Source

Fig 1: Market Volatility Index Data CBOE Version (VIX)

The presence of this single Stock Exchange was expected to increase the efficiency of the capital market industry in Indonesia and increased the investment attractiveness. Effective because the dissemination of information no longer came from two Stock Exchanges but only came from one Stock Exchange. Market participants also only knew one Stock Exchange facilitating all market segments. Efficiency was achieved because it was sufficient for a securities company to become a member of one exchange (Shiyammurti, Saputri, & Syafira, 2020) [12].

The Composite Stock Price Index is one of the stock market indexes used by the IDX. As an indicator of the stocks movement listed on the Indonesia Stock Exchange, both ordinary and preferred shares. The value of this stock is determined by value-based calculations, where greater weight is given to the stocks with large market capitalization and not to the highest ones.



***Source*:** Chart: Tirta Citradi Source

Fig 2: Stock Market Performance

The results of the discussion explained that the covid-19 pandemic slowed the economic growth in Indonesia. During the data observation period from February 2019 to March 2020, the Indonesian economy tended to decline. Bank Indonesia cut its projection for the country's economic growth to the range of 4.2% to 4.6% this year because of the coronavirus or covid-19 pandemic. This projection was far from the initial assumption of 5.0% to 5.4%. Perry Warjio, the Governor of Bank Indonesia, explained that the cut target came from the projection of Indonesia's economic condition in the future which was still considered sufficient.

The Impact of the covid-19 pandemic on the Indonesia Stock Exchange (Nastiti Rizky Shiyammurty). The number of confirmed cases of covid-19 proved to have an influence on the growth of stock indexes in four countries, they were Indonesia, Malaysia, Singapore and Thailand. This was shown statistically through the regression model showing that the changes in confirmed cases of covid-19 gave negative and significant results to the changes in the capital market index. These results held after integrating the control variable of State GDP.

In addition, the dummy variable to control the differences effect of transaction days in the capital markets of the four countries did not change the results obtained. Meanwhile, the change in death cases caused by covid-19 was not proved to affect the growth of the stock index. The three models applied did not show any significant results indicating that the model was not strong enough to predict the effect of the variable changes in the death cases because of the covid-19 on changes in the market index.

This might happen considering that there were significant differences between the four countries in terms of efforts to prevent and reduce the number of deaths because of the covid-19. Malaysia, Singapore and Thailand implemented Lock Down Policies in the first trimester of 2020. This policy caused the death rate from covid-19 could be controlled and did not increase exponentially. In contrast to Indonesia, which did not implement the same policy, but implemented the Large-Scale Social Restrictions. This could not shape the swelling of the death rate because of the covid-19 in Indonesia. This different treatment might create the doubtful conclusion results saying that the prediction model with the variable change in mortality because of the covid-19 was not strong enough to prove its effect on changes in the capital market index. This result was similar to the research of (Badar Nadeem Ashraf, 2020) which examined the same thing in 64 countries.

This was mainly caused by the spread of the corona virus or covid-19 which continued to spread domestically, and the pace of the domestic economy bacame slower because this virus also infected the prospects for export and import growth. This was because the distribution and supply chain of goods was disrupted. The President of Indonesia, Joko Widodo also said that Indonesia's economic growth, which was originally 5 percent to 5.4 percent would also experience a decline. This was triggered by world economic growth which fell from 3% to 1.5% or even lower because of the corona virus or co-vid 19 outbreak.

Investors typically engage in international investments to improve portfolio performance by reducing the risk of loss in times of financial distress. However, the benefits of diversification across different markets are diminished because of the stronger linkages among markets. For developing countries, the lower attractiveness is caused by the correlation of improved returns with developed countries paired with greater institutional vulnerability and to global risk sentiment driven by a surge in investor risk aversion.

The combination of these factors make the borrowing conditions of developing countries historically become more volatile than those of developed countries, thus in times of crisis, they easily cause sudden reversal of capital flows (Giofré, 2022) [4]. All research on this topic produced the same results, because during the pandemic, investors tended to actively sell their stocks in which caused the stock prices to fall. Investors who sell their stocks because of their psychological anxiety reactions to stock returns caused by the impact of the covid-19 pandemic. Asian capital markets hit by the pandemic experienced abnormally negative returns compared to other countries. There was information that was effective in increasing investors' pessimistic sentiment towards returns and worries about uncertainty (Liu, Manzoor, Wang, Zhang, & Manzoor, 2020) [6].

One interesting thing was found that the decline in the stock market as a response at the beginning of the co-vid pandemic period but then a rebound/increase again after some time did not only occur in Indonesia. Research on the stock market responding to covid-19 using major stock index data from 64 countries showed that the stock market reacted strongly with negative returns to the growth in confirmed cases (San Marino & Rohanah, 2021) [11].

The results of other studies also found that investors overreacted to large-scale disasters that had never happened, such as terrorists or earthquakes (Darmayanti, Mildawati, & Dwi Susilowati, 2021) [3]. The impact of the covid-19 pandemic led to low investor sentiment towards the market which in turn led the market to tend to be negative. Strategic measures related to fiscal and monetary were urgently needed to provide economic stimulation. As cases of the covid-19 pandemic developed, the market fluctuated more in the negative direction. Not only that, the slow pace of Indonesia's export activities to China also had a significant impact on the Indonesian economy, (Nasution, Erlina, & Muda, 2020) [8].

Conclusions

1. Along with the spread of the covid-19 pandemic virus which hit Indonesia in early 2020, foreign investors tended to experience an increase in the value of stock trading. The increase in foreign domination was feared to have a negative impact because it was suspected of being "hot money". In line with the increasing integration of domestic and global capital markets, the level of dependence was also increasing, thus certain fluctuations would affect the investor decisions and result in rapid capital outflows. This would harm the economy because it affected the domestic liquidity.
2. The results showed that there was a significant difference in the Composite Stock Index Price both before and after the covid-19 pandemic in Indonesia in early March 2020, and the decline in stock indexes occurred in almost all countries as a reaction from various stakeholders. The capital market in Indonesia reacted negatively even before it was confirmed that this virus had entered Indonesia with the one month lowest point after covid-19 was confirmed to have entered Indonesia, the period after that showed an upward trend even though it had not been able to achieve the performance before this pandemic, this phenomenon also occurred in almost all capital markets in the world.
3. One of the factors behind the decline in the Composite Stock Index Price, apart from the currency exchange rate, was the inflation rate. However, the inflation which occurred at the beginning of 2020 was not that significant because the indicator which was often used to measure the inflation rate was the Consumer Price Index (CPI). Changes in the CPI from time to time indicated the price movements of the packages of goods and services consumed by the public. And the price of goods in Indonesia at the time of the spread of the covid-19 pandemic virus did not increase overall.

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