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ARTICLE

POLITICAL RISK AND MARKET REACTION: ABNORMAL RETURN OF THE INDONESIAN STOCK EXCHANGE (IDX) DURING THE 2025 DEMONSTRATION EVENT

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Abstract

This study aims to analyze the Indonesian capital market's reaction to the political demonstrations on August 29, 2025, as a form of non-electoral political risk that could potentially impact stock market performance. In the context of increasing financial market sensitivity to socio-political uncertainty, this study uses a quantitative explanatory approach with an event study method to test for abnormal returns (AR) and cumulative abnormal returns (CAR) on the Indonesian Stock Exchange (IDX) during the observation period. Secondary data were obtained from the daily closing prices of the IDX with an estimation window from July 1 to August 22, 2025, and a seven-day event window surrounding the event. The analysis results show that although no significant abnormal returns were found on the day of the event, there was a statistically significant negative cumulative abnormal return during the observation period, indicating that the political demonstrations exerted accumulative pressure on the stock market. These findings indicate that the Indonesian capital market reacts negatively to non-electoral political events, with an indirect and cumulative adjustment pattern, reflecting the characteristics of an emerging market with semi-strong efficiency. This research contributes to expanding the literature on political risk in emerging markets and provides practical implications for investors and policymakers to strengthen risk mitigation strategies and maintain market stability amidst domestic political uncertainty.
Keywords: IDX, event study, political risk, abnormal return, cumulative abnormal return.

A. INTRODUCTION

Global financial markets exhibit high sensitivity to political factors that can influence investor expectations and macroeconomic stability. In the context of an increasingly integrated modern economy, political uncertainty often leads to sharp stock price fluctuations in various countries, particularly in emerging markets. Cross-country studies show that political events such as general elections, regime changes, and protectionist policies have a significant impact on capital market volatility and foreign investment flows (Kiky, 2025). This situation demonstrates that political aspects cannot be separated from capital market dynamics, as investment decisions are heavily influenced by social stability and clarity of public policy direction (Damayanti et al., 2019) (Yuana & Prasetya, 2025). In Indonesia, the link between political risk and capital markets has become increasingly relevant with the increasing involvement of foreign investors and rapidly changing socio-political dynamics, making the domestic capital market highly sensitive to various political information and government policies (Hamdani & Elvaretta, 2024).

At the national level, research on market reactions to political events has become an important focus in Indonesian financial literature. Several studies have shown that political

events such as elections, cabinet announcements, and social demonstrations have the potential to generate abnormal returns on stock indices (Amtiran, 2025). However, most of this research focuses on electoral political events, while the impact of non-electoral events such as political demonstrations on the capital market has been relatively rarely studied in depth (Febrian, 2021). Yet, large demonstrations involving widespread social mobilization can create political and psychological uncertainty among investors, which in turn can impact stock index performance and short-term investment decisions. This gap underscores the importance of research examining market reactions to political demonstrations, particularly in the context of the Indonesian capital market, which is still considered an emerging market.

From a theoretical perspective, the relationship between political risk and the capital market can be explained through Political Risk Theory and the Efficient Market Hypothesis (EMH). Political risk theory states that political events that generate uncertainty can increase investors' risk perceptions and trigger portfolio adjustments that impact stock prices. Meanwhile, the EMH explains that an efficient market will immediately respond to any new information, including political information, through changes in stock prices that reflect the latest fundamental values (Fama, 1970). This approach aligns with research in various developing countries showing that stock markets react quickly to political changes, but with a higher level of sensitivity than developed markets (Trisnowati & Muditomo, 2021). Thus, this combination of theories provides a conceptual basis for understanding the behavior of the Indonesian capital market in responding to political demonstrations as a form of non-economic risk that is empirically and theoretically relevant (Ratnaningsih & Widanaputra, 2019).

Based on this foundation, this study is designed to answer three main questions: (1) Did the political demonstration on August 29, 2025, impact the IDX return? (2) Was there a significant abnormal return (AR) in the period surrounding the demonstration? and (3) Was there a difference in the average IDX return before and after the demonstration? The purpose of this study is to measure and analyze market reactions to political demonstrations in Indonesia through an event study approach. Using daily IDX closing price data for a predetermined event window and estimation window, this study examines the existence of abnormal returns (AR) and cumulative abnormal returns (CAR) as empirical indicators to assess the extent of the impact of political events on the domestic stock market (Listyaningsih & Sariningsih, 2020). Using a quantitative approach, this study is expected to provide strong empirical evidence regarding the impact of political demonstrations on the Indonesian capital market.

The scientific contribution of this study lies in its effort to broaden understanding of the relationship between political risk and capital market performance in developing countries. Unlike previous research that focused more on electoral events, this study focuses on political demonstrations as a form of non-electoral political risk often overlooked in Indonesian financial literature. Empirical results showing significant cumulative negative abnormal returns during the demonstration period indicate that the Indonesian capital market responds to social uncertainty in an accumulated and indirect manner, enriching the discourse on market efficiency in developing countries (Yuliani & Isnurhadi, 2017). Therefore, this article not only provides empirical contributions to the literature on political risk and market finance but also offers practical implications for investors and policymakers in designing risk mitigation strategies amid domestic political volatility.

B. LITERATURE REVIEW

Political Risk Theory and the Efficient Market Hypothesis (EMH) serve as the primary foundations for explaining the relationship between political dynamics and capital market behavior. Political Risk Theory is based on the view that political uncertainty can pose systemic risks to investors through disruptions to economic policy, social stability, and government

direction. This risk impacts investor perceptions of investment security, particularly in emerging markets whose economic structures are more vulnerable to political change (Wahyono, 2021). Meanwhile, the EMH, proposed by Fama, asserts that stock prices reflect all available information, including political information. In a semi-strong form efficient market, new information is immediately responded to by changes in stock prices (Hasanah, 2023). Therefore, political events such as demonstrations, elections, and policy changes can cause abnormal movements in stock returns, as measured by the abnormal return (AR) and cumulative abnormal return (CAR) indicators.

Previous empirical research has shown that the Indonesian capital market is highly sensitive to political events. A study by (Amtiran, 2025) found that although there were no significant abnormal returns during the 2019 elections, investors exhibited a cautious (wait-and-see) attitude towards the uncertainty of the political outcome. Similar results were found by Paramita (2020), who showed no significant difference between abnormal returns before and after the elections, indicating that the market had anticipated the political outcome. However, research by Febrian (2021) highlighted that large political demonstrations in late 2019 actually triggered a negative reaction on the Indonesian Stock Exchange (IDX), particularly in the banking and infrastructure sectors. These results suggest that while electoral events tend to be anticipated, spontaneous and large-scale political events can create significant uncertainty in the Indonesian capital market.

While several studies have examined the influence of political events on the stock market, there is a significant research gap in the context of market reactions to political demonstrations. Most studies focus on scheduled events such as elections, political debates, or economic policy announcements (Nasution & Fadhillah, 2023). Conversely, non-electoral events such as demonstrations are often overlooked, even though they have significant potential to create short-term uncertainty and psychological stress for investors (Febrian, 2021). Furthermore, many previous studies have used only sectoral or individual company approaches, failing to examine the impact at the aggregate market level, such as the Indonesian Stock Exchange (IDX). This raises the need for a more comprehensive empirical study based on market-level event studies to understand the dynamics of political risk on the overall performance of the Indonesian stock market (Sari & Ismail, 2023).

This research seeks to fill this gap by analyzing the impact of the August 29, 2025, political demonstrations on the IDX using an event study approach. This study complements the literature by highlighting market reactions to rarely studied non-electoral political events in Indonesia. By measuring abnormal returns and cumulative abnormal returns during the event window, this study provides an empirical picture of how the market responds to social uncertainty in the domestic political context. This approach contributes to the enrichment of political risk theory and the testing of the efficient market hypothesis during social crises. In addition, the results of this study are expected to clarify how investors in emerging markets react to spontaneous political events compared to scheduled political events (Sudjono, 2021).

Methodological trends in previous studies indicate that the event study method is the dominant approach in analyzing market reactions to political and economic events in Indonesia (Pramesti, 2025). Contemporary research uses the t-test and the Wilcoxon Signed Rank Test to test the significance of abnormal returns and cumulative abnormal returns, and expands the analysis by including variables such as trading volume activity (TVA) and the bid-ask spread as indicators of market reaction (Isbanah, 2020). Furthermore, several cross-country studies also indicate that emerging markets have lower efficiency than developed markets, resulting in slower and more volatile reactions to political events (Sulehri, 2022). Therefore, using the event study method, combined with AR and CAR, remains a relevant and effective methodological choice for measuring the impact of politics on the Indonesian stock market.

As a conceptual synthesis, this research begins with the understanding that political risk is an integral part of systemic risk in capital markets in developing countries like Indonesia. When political events occur, whether electoral or non-electoral, the market will respond according to the assumptions of the Efficient Market Hypothesis and investor behavior described in Behavioral Finance Theory. This reaction is reflected in changes in abnormal returns and cumulative abnormal returns, which indicate the level of market uncertainty regarding new political information (Handayani, 2020). Therefore, this study combines the theoretical frameworks of political risk, market efficiency, and investor behavior to explain the phenomenon of the IDX's reaction to the 2025 political demonstrations. This approach not only strengthens the empirical validity of the findings but also provides a solid conceptual foundation for the statistical analysis that will be described in the methods and results section of the study.

C. RESEARCH METHODOLOGY

This research uses a quantitative explanatory approach using the event study method, which aims to measure the capital market's reaction to a political event, a large demonstration, that occurred on August 29, 2025. This approach aligns with the research objective of identifying abnormal returns (AR) and cumulative abnormal returns (CAR) around the event date as indicators of market reaction. The event study method is widely used in capital market research to assess how an external event impacts stock prices by comparing actual and expected returns over a specific time period (Sari & Ismail, 2023). This approach also allows for the isolation of the influence of political events from normal market fluctuations, resulting in a more accurate analysis of investor reactions to political risk (Yuana & Prasetya, 2025).

Research Type and Strategy

This research is quantitative explanatory, aiming to explain the causal relationship between political events (independent variables) and changes in market returns (dependent variables). The event study research strategy was chosen because of its ability to measure the speed and direction of market reactions to new information, such as political demonstrations. This model is also commonly used in financial studies to assess market efficiency and the influence of non-economic risks on stock values (Gunistiyo & Waskito, 2021). This approach is appropriate for the Indonesian capital market, which is categorized as an emerging market with a semi-strong level of efficiency, where political information can generate significant short-term reactions.

Data Sources and Types

The data used in this study is secondary, in the form of daily closing price data for the Indonesian Stock Exchange (IDX) obtained from Investing.com, which provides open and reliable historical financial data. The selection of secondary data was based on the objective of measuring aggregate capital market reactions, rather than at the individual company level, so the unit of analysis for this study is the Indonesian capital market as a whole. The type of data collected includes daily closing prices for the IDX for the period July 1, 2025, to September 2, 2025, including the estimation window and event window required for calculating AR and CAR (Wahyono, 2021).

Data Collection Techniques and Instruments

The data collection method was conducted through digital documentation, by downloading historical IDX data from official sources. The data collection process included data selection to ensure there were no missing values and chronological arrangement of the data based on trading dates. The primary analytical instruments used were Microsoft Excel for initial data processing and EViews 13 for statistical testing, including estimating expected returns and calculating daily and cumulative abnormal returns. This software is commonly used in modern

financial studies due to its ability to simultaneously perform normality tests, paired sample t-tests, and Wilcoxon signed-rank tests (Handayani, 2020).

Data Inclusion and Exclusion Criteria

Data inclusion criteria were determined purposively based on their relevance to the research objectives. The criteria used included:

1. Complete IDX closing price data is available throughout the observation period (July 1, 2025 – September 2, 2025).
2. The data does not contain extreme values due to stock exchange holidays or technical disruptions.
3. The estimation window is set from July 1, 2025, to August 22, 2025, to calculate expected returns.
4. The event window covers t-3 to t+3, i.e., August 27 to September 2, 2025.

Meanwhile, data that did not meet continuity criteria or had missing observations were excluded from the analysis. This criterion follows common practice in event study research to maintain model validity and minimize temporal bias (Fatimatussa'adah, 2024).

Unit of Analysis

The unit of analysis in this study is the daily return of the Indonesian Stock Exchange (IDX), not individual stocks. The IDX was chosen as the unit of analysis based on the argument that this index reflects the aggregate performance of the Indonesian capital market and represents investors' collective expectations regarding economic and non-economic information, including political risk. This approach aligns with findings that emerging markets tend to be more sensitive to political information than developed markets (Isbanah, 2020). Therefore, index-based analysis provides a more accurate picture of market reactions to the 2025 political demonstrations.

Data Analysis Techniques

Data analysis was conducted through three main stages:

Calculation of the IDX Daily Return:

Daily returns are calculated using the formula:

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

where R_t is the return of the IDX on day t, and P_t is the closing price of the IDX on day t.

Estimated Expected Return and Abnormal Return:

Expected returns are calculated using a market model, as used in previous research (Hermuningsih & Sari, 2021).

The formula:

$$AR_{it} = R_{ir} - E(R_{it})$$

where AR_t is the abnormal return on day t and E(R_t) is the expected return estimated from the market model.

Cumulative Abnormal Return (CAR) Calculation:

CAR is calculated by summing the AR over the event window period:

$$CAR_{t1,t2} = \sum_{t=t1}^{t2} AR_{it}$$

The CAR value is used to assess the cumulative impact of events on the IDX.

Statistical Significance Test:

The Kolmogorov-Smirnov normality test was performed first. If the data were normally distributed, a one-sample t-test and a paired sample t-test were used; otherwise, a Wilcoxon

signed-rank test was used. This approach has been widely used in event studies on the Indonesian capital market (Sudjono, 2021).

This analysis technique provides a strong empirical basis for testing three research hypotheses: the existence of significant abnormal returns and cumulative abnormal returns, and the difference in IDX returns before and after political demonstrations. With its systematic and theory-based design, this method allows for an objective evaluation of the impact of political risk on the Indonesian capital market.

D. RESULT AND DISCUSSION

This study aims to examine the Indonesian capital market's reaction to the political demonstrations on August 29, 2025, using a quantitative event study approach. Statistical test results are presented based on abnormal return (AR) analysis, cumulative abnormal return (CAR), and a test of the difference in returns before and after the event. All analysis results are obtained from daily closing price data for the Indonesian Stock Exchange (IDX) during the observation period of July 1, 2025, to September 2, 2025, with an estimation window of July 1, 2025, to August 22, 2025, and an event window of August 27, to September 2, 2025. The analysis was conducted using EViews 13 statistical software and Microsoft Excel to obtain accurate and systematic results.

Descriptive Statistics of Return and Abnormal Return

Based on the calculations, the average abnormal return (AR) during the event window was –0.003034, with a standard deviation of 0.008543, 11 observation days, and a t-statistic of –1.177767. These results indicate that, on average, the market experienced a decline in abnormal returns of approximately -0.30% per day around the political demonstrations of August 29, 2025. However, the t-statistic test yielded a p-value of 0.2662, which is greater than the 0.05 significance level. Therefore, there is insufficient statistical evidence to suggest that the demonstrations caused significant abnormal returns on the IDX.

The distribution of AR during the observation period exhibits a fluctuating pattern. Negative AR values appeared on most days, especially on D–5 (–0.008864), D–4 (–0.006200), D–2 (–0.004826), D+1 (–0.017564), and D+2 (–0.014286), while positive values appeared on D–3 (0.006409), D–1 (0.001686), D+3 (0.006278), and D+4 (0.008591). This pattern indicates that the market experienced pressure after the demonstration, with a tendency for returns to decline, especially one to two days after the event. This finding is similar to previous research showing that major political or social events can cause short-term volatility in the capital markets of developing countries (Sari & Ismail, 2023).

Cumulative Abnormal Return (CAR) Significance Test Results

The Cumulative Abnormal Return (CAR) test results show that the average CAR value during the event window period was –0.022041, with a standard deviation of 0.012747, a t-statistic of –5.734531, and a p-value of 0.0002. This result is statistically significant at the 95% and even 99% confidence levels. Therefore, it can be concluded that cumulatively, the Indonesian capital market experienced a –2.20% decline in returns during the 11 days of observation surrounding the political demonstrations. This negative value indicates the accumulated impact of market pressures due to increased political and social uncertainty during this period.

The CAR value shows a consistent downward trend from D–5 to D+2. The CAR value on D–5 was recorded at –0.008864, then continued to decline until reaching its lowest point on D+2 at –0.043736 (–4.37%), and experienced a slight recovery on D+3 and D+4 at –0.037458 and –0.028867, respectively. However, until D+5, the CAR value remained negative (–0.033371), indicating that the market had not fully recovered from the impact of the demonstrations. This pattern of continuous CAR decline indicates an accumulative and indirect

market reaction, in line with the characteristics of emerging markets which tend to take longer to stabilize after major political events (Febrian, 2021).

AR and CAR Summary Table During Event Window

The following table presents the Abnormal Return (AR) and Cumulative Abnormal Return (CAR) values of the IDX during the observation period from D–5 to D+5:

Table 1. Summary of Abnormal Return (AR0 and Cumulative Abnormal Return (CAR)

Relative Day	AR (Abnormal Return)	CAR (Cumulative Abnormal Return)
D-5	–0.008864	–0.008864
D-4	–0.006200	–0.015064
D-3	0.006409	–0.008595
D-2	–0.004826	–0.013421
D-1	0.001686	–0.011735
D0	–0.000152	–0.011886
D+1	–0.017564	–0.029450
D+2	–0.014286	–0.043736
D+3	0.006278	–0.037458
D+4	0.008591	–0.028867
D+5	–0.004504	–0.033371

Source: Processed by Researchers, 2025

The table shows that AR exhibits a fluctuating pattern, with negative values dominating in the post-event period (D+1 and D+2), indicating market pressure due to political uncertainty. Meanwhile, CAR exhibits a significant cumulative downward trend, reaching its lowest point on D+2, before experiencing a minor recovery on D+3 and D+4. This pattern is similar to findings in previous research showing that the impact of political events often appears several days later after the main event (Paramita, 2020); (Suryani & Pertiwi, 2021).

Results of the Test of Differences in Average Returns Before and After the Event

The difference in average IDX returns before and after the demonstration was tested using a paired sample t-test. The test results revealed that the average return before the demonstration was 0.000851, while after the demonstration it was -0.002977. The t-statistic value of -2.4061 with a p-value of 0.034 indicates a significant difference between the average IDX returns before and after the demonstration at the 5% significance level. This indicates a change in investor behavior in response to short-term political uncertainty. This finding aligns with empirical patterns observed in event study research related to political and economic events that impact stock indices in Indonesia (Pramesti, 2025).

Results of Assumption Test and Model Feasibility

The Kolmogorov-Smirnov normality test showed that the AR data were normally distributed (p-value = 0.087 > 0.05), while the CAR data showed a deviation from normality (p-value = 0.032 < 0.05). Therefore, the CAR test was also validated using the non-parametric

Wilcoxon signed-rank test, which produced a Z-statistic value = –2.982 with a p-value = 0.003, confirming the previous t-test results that the CAR was negatively significant. The use of these two test methods ensures the validity of the results obtained, in accordance with the statistical approach in event studies in the Indonesian capital market (Fatimatussa'adah, 2024).

Summary of Key Results

Overall, the results of this study indicate that although daily abnormal returns were not statistically significant, cumulative abnormal returns showed a significant decline over the observation period. The market reaction was strongest on the first and second days after the demonstration (D+1 and D+2), with a slight recovery pattern in the following days. The significant difference between the average returns before and after the event indicates that the Indonesian capital market reacted to non-electoral political events that created social uncertainty, in line with the dynamics of semi-strong market efficiency as outlined in research on financial markets in Indonesia (Febrian, 2021).

The results of this study confirm that the Indonesian capital market exhibited a significant negative reaction to the political demonstrations on August 29, 2025, as reflected in the negative and statistically significant Cumulative Abnormal Return (CAR) value. These results confirm the first and second hypotheses of the study, namely that political events impact the abnormal return (AR) and cumulative abnormal return (CAR) of the Indonesian Stock Exchange (IDX) during the observation period. Although the daily abnormal return was insignificant, the accumulated influence over several days surrounding the event indicates significant market pressure. This means that, although the market reaction was not immediate on the day of the event, the accumulation of negative investor sentiment led to a gradual decline in the index value. This finding demonstrates the characteristics of emerging markets, which tend to be slow to absorb information and react emotionally to political uncertainty (Isbanah, 2020).

Theoretically, this finding supports the framework of Political Risk Theory and the Efficient Market Hypothesis (EMH) in semi-strong form. Within the context of political risk theory, political demonstrations create social uncertainty that increases investor risk perception and encourages flight to safety through withdrawals of funds from the capital market (Wahyono, 2021). This aligns with the EMH assumption that semi-strong efficient markets react quickly to new information, although in reality, such reactions are not always immediate or asymmetrical depending on the social and psychological context of investors. In this case, the market reacted negatively not only on the day of the demonstration but also one to two days afterward, indicating that investors need time to assess emerging political risks (Handayani, 2020).

Compared with previous research, the results of this study are similar to those that found a significant impact of political events on the Indonesian stock market, but differ in the type of events. Research by (Febrian, 2021) found that student demonstrations in 2019 caused negative abnormal returns in most stock sectors, particularly the infrastructure and banking sectors. Another study by (Amtiran, 2025) showed that the 2019 presidential election did not elicit a significant reaction because the market anticipated the outcome. Conversely, this study shows that spontaneous and unexpected political demonstrations actually trigger significant negative reactions, strengthening the argument that the Indonesian market is more sensitive to unscheduled political shocks than scheduled political events (Nasution & Fadhillah, 2023).

This finding is also consistent with cross-country research showing that political instability tends to undermine investor confidence and increase market volatility. A study on the impact of the Russia–Ukraine war on the Indonesian stock market, for example, found that cumulative abnormal returns in the energy and food sectors decreased significantly after the invasion announcement, reflecting the market's response to global geopolitical uncertainty (Sari &

Ismail, 2023). Similarly, research by Ratnaningsih & Widanaputra (2019) demonstrated a positive reaction to stable presidential election results, confirming that the direction of market reaction depends on the perceived risk generated by a political event. In this context, the results suggest that the 2025 political demonstrations were perceived by the market as a signal of risk and uncertainty, rather than as a neutral event.

Scientifically, this article makes an important contribution to the development of political risk theory in the context of emerging markets. First, this study confirms that non-electoral forms of political risk, such as social demonstrations, have a significant impact on capital markets, broadening the focus of the literature, which has previously emphasized electoral events. Second, these empirical results strengthen the position of the semi-strong form of the EMH in Indonesia, where the market reacts to political information with a pattern of short-term adjustment and gradual recovery. Third, methodologically, this study enriches the application of event study methods at the aggregate market level (the Indonesian Stick Exchange), rather than just the sectoral or company level, thus providing a more comprehensive understanding of the capital market's systemic sensitivity to political risk (Pramesti, 2025).

However, this study has several limitations that must be acknowledged. First, this study only focuses on a single political event over a short period, thus limiting the generalizability of the results to other types of political events. Second, the use of the Indonesian Stock Exchange data as a representation of the aggregate market does not allow for the identification of differences in reactions between sectors, even though some sectors, such as banking and infrastructure, are known to be more sensitive to political instability. Third, this study did not include macroeconomic controlling variables such as interest rates and exchange rates, which may interact with political effects on the stock market. Therefore, further research could develop a multi-event model that considers macroeconomic factors and sectoral characteristics to gain a more comprehensive understanding of market reactions to political risk in Indonesia.

In terms of practical implications, the results of this study are relevant to three main groups: investors, regulators, and public policymakers. For investors, these findings emphasize the importance of considering socio-political dynamics as a determinant of investment risk, particularly during periods of political uncertainty. Investors are advised to implement diversification strategies across sectors and time horizons to minimize potential losses due to political turmoil. For capital market regulators, these results demonstrate the need to strengthen information transparency systems and policy stability to maintain market confidence during social crises. Meanwhile, for public policymakers, this study demonstrates that political stability is a crucial prerequisite for capital market efficiency and long-term investment sustainability (Lesmana & Sumani, 2023). Therefore, successfully maintaining a conducive political climate impacts not only social legitimacy but also economic stability and investment attractiveness in Indonesia.

E. CONCLUSION

This study empirically demonstrates that the political demonstrations on August 29, 2025, generated a significant negative reaction in the Indonesian capital market. Although daily abnormal returns did not demonstrate statistical significance, the cumulative abnormal return (CAR) calculation indicates a strong and sustained negative impact on the performance of the Indonesian Stock Exchange (IDX) throughout the observation period. The significant decline in CAR during the event window reflects cumulative pressures resulting from increased perceptions of political risk and social uncertainty among investors. These findings address the overall research problem formulation by demonstrating that the Indonesian capital market responds negatively to non-electoral political events, and that this reaction is cumulative, not instantaneous. These results also confirm that the Indonesian market tends to exhibit semi-

strong efficiency, where new political information is gradually absorbed through stock price adjustment mechanisms within a few days of the event.

Theoretically, this study strengthens the understanding of the link between political risk and capital market behavior and expands the application of event studies to non-electoral contexts in developing countries. From the perspective of Political Risk Theory and the Efficient Market Hypothesis, the results demonstrate that political stability plays a crucial role in maintaining market efficiency and confidence. Practically, this research provides valuable insights for investors to anticipate the impact of political risk on investment portfolios, and for regulators to strengthen market stabilization policies during periods of social uncertainty. Furthermore, this research contributes to the financial literature by providing empirical evidence that political demonstrations have the capacity to trigger market volatility, even without significant changes in economic fundamentals.

The implications of this research demonstrate the importance of developing an early warning system for political risk in capital market analysis. Future research is recommended to expand the scope by comparing impacts across sectors, considering additional macroeconomic variables such as interest rates and exchange rates, and exploring the dimensions of investor behavior in responding to political events in emerging markets. A cross-event and cross-country approach will also enrich understanding of market adaptation patterns to global political risk, making empirical findings more comprehensive and applicable to decision-makers in finance and public policy.

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