

# Market Reaction of the Indonesian Composite Index to MSCI Evaluation

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**Abstract:** Global capital markets are increasingly influenced by evaluations conducted by international financial institutions and index providers. One of the most prominent institutions in this context is MSCI, whose market classification and governance assessments are closely monitored by global investors. This study aims to analyze the market reaction of the Indonesia Composite Index to the MSCI market evaluation announcement related to transparency and governance conditions in the Indonesian capital market. The research applies an event study methodology to identify abnormal returns and cumulative abnormal returns surrounding the announcement date. The event date is defined as 27 January 2026, with an event window of five trading days before and after the announcement ( $t-5$  to  $t+5$ ). Daily index closing price data are used to calculate returns, while expected returns are estimated using the Mean Adjusted Model based on historical data within the estimation window. Abnormal returns are calculated as the difference between actual returns and expected returns, and statistical significance is tested using a  $t$ -test. The results indicate that the Indonesian stock market experienced significant negative abnormal returns around the announcement date, with the largest decline occurring on the event day. The cumulative abnormal return during the event window reached approximately  $-4.0\%$ , indicating a persistent negative market reaction following the announcement. Statistical testing confirms that the abnormal returns are significant at the 5% level. These findings suggest that institutional evaluations issued by global financial institutions contain important information that influences investor behavior in emerging markets. The results also highlight the importance of governance transparency and institutional credibility in supporting investor confidence and sustainable financial market development.

**Keywords:** Event Study, MSCI Evaluation, Abnormal Return, Capital Market Governance, Sustainable Financial Markets

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## 1. INTRODUCTION

Global capital markets are increasingly influenced by evaluations conducted by international financial institutions and index providers. One of the most influential institutions in this regard is MSCI, which periodically evaluates the classification and governance standards of national stock markets. Such evaluations are closely monitored by global investors because they signal the level of transparency, market accessibility, and regulatory quality within a country's financial system. In emerging markets, these signals can trigger significant investor reactions, often reflected in price volatility, trading volume changes, and shifts in capital flows. In Indonesia, the Indonesia Composite Index serves as the primary indicator of overall stock market performance and is therefore highly sensitive to global information signals, including MSCI assessments.

Previous studies have demonstrated that changes in index composition or evaluation by global index providers can generate measurable market reactions. Empirical research on emerging markets shows that inclusion or exclusion from international indices can produce abnormal returns and increased trading activity as institutional investors adjust their portfolios [1]. Similarly, other studies have shown that disclosure of environmental, social, and governance (ESG) ratings may significantly influence short-term stock returns, indicating that transparency and governance information is increasingly integrated into investor decision-making processes [2]. In the Indonesian context, several event study analyses have also confirmed that significant announcements—such as economic shocks or government policy changes—can lead to abnormal returns in stock indices, supporting the semi-strong form of market efficiency [3].

Despite these insights, limited research has examined how MSCI market evaluations specifically affect the Indonesian capital market, particularly the broader market index rather than individual firms. This gap is important because MSCI assessments do not only affect individual stocks but may also influence international perceptions of a country's financial governance, transparency standards, and regulatory credibility. As a result, market reactions to such evaluations may provide empirical evidence regarding how global investors interpret institutional governance signals in emerging markets. Understanding this reaction is crucial for assessing whether global sustainability and governance standards influence domestic market dynamics.

To address this gap, this study applies an *event study* methodology to examine the market reaction of the Indonesia Composite Index around the announcement of MSCI market evaluation. The analysis focuses on abnormal returns and cumulative abnormal returns within a defined event window surrounding the announcement date. By comparing actual returns with expected returns derived from historical market performance, the study identifies whether the MSCI evaluation generates statistically significant market responses. This methodological approach allows researchers to capture the short-term informational impact of global institutional announcements on national stock market behavior.

Recent studies on the Indonesian and ASEAN capital markets indicate that investors respond quickly to public information, especially when announcements carry signals about governance, policy direction, and market risk. For instance, changes in the composition of the LQ45 and MSCI indexes were found to generate significant movements in stock returns and trading volume, showing that index-related announcements contain information valued by market participants [31]. Similarly, an event study of early-2025 domestic and global policy events in Indonesia showed that announcements such as the Biodiesel B40 policy, inflation releases, and Bank Indonesia's policy decision influenced prices, trading activity, and foreign investor behavior, suggesting that the market reacts promptly to public policy signals [32]. In the same vein, the Indonesian market's response to the 2025 Trump tariff announcement revealed a significant negative abnormal return immediately after reopening, followed by a recovery later in the month, which confirms that emerging markets may react strongly to external shocks and then gradually revise investor sentiment [33]. Building on these findings, the present study examines whether the MSCI evaluation announcement also conveys informational content that is rapidly incorporated into the movement of the Indonesia Composite Index.

The novelty of this research lies in integrating financial market reaction analysis with broader discussions of governance transparency and sustainable development. Specifically, the study links the market response to MSCI evaluation with the broader agenda of the United Nations *Sustainable Development Goals* (SDGs), particularly those related to institutional quality, transparency, and economic development. By examining how governance-related signals influence investor behavior in an emerging market, this research contributes to multidisciplinary discussions on the intersection between financial markets, global governance standards, and sustainable development policies. The findings are expected to provide both academic insights and policy implications regarding the role of international financial assessments in shaping investor confidence and market stability.

## **2. THE COMPREHENSIVE THEORETICAL BASIS**

### **2.1 Market Efficiency and Information Content**

The concept of market efficiency is primarily derived from the *Efficient Market Hypothesis (EMH)*, which states that stock prices fully reflect all available information in the market. According to this theory, investors cannot consistently achieve abnormal profits because price adjustments occur rapidly whenever new information becomes available [1]. In the context of financial economics, market efficiency is commonly classified into three forms: weak form, semi-strong form, and strong form efficiency. Among these classifications, the *semi-strong form efficiency* is particularly relevant for event-based financial research because it assumes that publicly available information is immediately incorporated into asset prices.

Within a semi-strong efficient market, any new public information—such as policy announcements, institutional evaluations, or financial disclosures—should be quickly reflected in stock prices. Consequently, if abnormal returns are observed after a specific announcement, it indicates that the market reacts to the informational content of the event. In other words, abnormal return becomes an empirical indicator of how investors interpret new information released to the market [2].

In emerging markets, the reaction to new information may be more pronounced due to differences in institutional maturity, regulatory transparency, and market liquidity. Investors often rely on signals from

credible international institutions to assess the reliability and governance quality of a financial system. Therefore, announcements issued by global institutions or index providers may generate observable market reactions, particularly in markets where international investment flows play an important role [10].

## **2.2 Event Study Method in Financial Research**

The *event study* method has become one of the most widely used analytical approaches in financial research for examining how markets respond to new information. The fundamental objective of an event study is to identify whether a particular event generates abnormal returns within a defined event window surrounding the announcement date. By comparing actual returns with expected returns derived from historical performance, researchers can determine whether the event contains value-relevant information for investors [3].

This methodology typically involves several key steps, including identifying the event date, determining the event window, calculating daily returns, estimating expected returns, and measuring abnormal returns. If abnormal returns are statistically significant, the results suggest that the event carries informational content that influences investor behavior. The event study approach is therefore particularly useful for evaluating the short-term informational impact of announcements on stock prices [5].

Previous empirical studies have widely applied event study methods to analyze the impact of corporate announcements, macroeconomic policy changes, and institutional evaluations on stock market performance. Research in various markets has demonstrated that major announcements—such as financial crises, regulatory reforms, and governance disclosures—can generate significant abnormal returns in the short term. These findings indicate that financial markets respond not only to economic fundamentals but also to informational signals related to institutional credibility and policy direction [6].

The event study methodology is widely used to assess market reactions to new information, particularly within the framework of the Efficient Market Hypothesis (EMH). According to the semi-strong form of EMH, stock prices adjust rapidly to publicly available information, including institutional announcements. Previous studies have demonstrated that index-related announcements, such as MSCI inclusion or exclusion, can generate significant abnormal returns due to changes in investor expectations and capital flows. Empirical evidence from emerging markets suggests that global institutional signals can strongly influence market sentiment and liquidity dynamics. In the context of ASEAN and Indonesia, several studies have shown that market reactions are often sensitive to external signals due to relatively lower market efficiency and higher dependence on foreign investment. Therefore, MSCI evaluations can be interpreted as credibility signals that influence investor confidence and perceived risk.

## **2.3 Governance, Transparency, and Investor Confidence**

Governance and transparency are widely recognized as fundamental pillars of financial market stability and investor confidence. A well-functioning financial market requires regulatory frameworks that ensure fair disclosure, accountability, and protection for investors. When these institutional mechanisms operate effectively, they reduce information asymmetry and improve the overall efficiency of capital allocation [11].

Markets characterized by high levels of transparency and strong governance structures tend to attract greater international investment because they reduce uncertainty and perceived risk. Conversely, concerns regarding governance quality—such as weak regulatory enforcement, limited transparency, or institutional instability—may increase investor risk perceptions and lead to reduced capital inflows. In this context, governance signals become an important factor shaping investor expectations and portfolio decisions [12].

Institutional evaluations conducted by global index providers can therefore function as external governance signals to the market. These evaluations often assess aspects such as market accessibility, regulatory quality, investor protection, and transparency standards. As a result, announcements related to such evaluations may influence investor perceptions regarding the credibility and stability of an emerging market financial system.

## **2.4 Sustainable Development and Financial Market Institutions**

Financial markets play a critical role in mobilizing capital for economic development and supporting long-term investment. A well-developed financial system facilitates the efficient allocation of resources, enabling capital to flow toward productive sectors that drive economic growth. In this context, the quality of financial institutions and regulatory governance becomes essential for ensuring that capital markets function effectively and sustainably [20].

The concept of sustainable development emphasizes the importance of integrating economic growth, social responsibility, and institutional stability. Strong governance frameworks, transparent financial reporting systems, and accountable regulatory institutions are necessary conditions for achieving sustainable economic development. These institutional characteristics contribute to financial market resilience and strengthen investor confidence in long-term economic prospects [21].

Consequently, improving governance and transparency in financial markets is closely aligned with global sustainability agendas, including the *Sustainable Development Goals (SDGs)*. By strengthening institutional quality and financial market credibility, countries can enhance their ability to attract long-term investment and support sustainable economic development. In this context, evaluations conducted by global financial institutions may serve not only as market signals but also as indicators of progress toward stronger governance and sustainable financial systems.

### **3. METHOD**

#### **3.1 Research Design**

This research employs the *event study* approach to analyze the reaction of the stock market to institutional announcements. The event study method is widely used in financial economics to evaluate how specific events influence stock prices by measuring abnormal returns around the announcement date [3], [4]. In this study, the method is applied to examine the reaction of the Indonesia Composite Index to the evaluation announcement issued by MSCI.

The event study approach is appropriate for this research because it allows the identification of short-term market responses to new information released to investors. By comparing actual returns with expected returns during a specific event window, the method can determine whether the announcement contains value-relevant information that influences investor behavior [5]. The research procedure consists of several sequential stages including event identification, event window determination, return calculation, abnormal return estimation, and statistical testing.

#### **3.2 Event Identification**

The first step in the event study methodology is identifying the event date (*event date*). In this research, the event date ( $t_0$ ) is defined as the official announcement date of the MSCI market evaluation concerning the Indonesian capital market.

This announcement is considered a significant informational event because MSCI evaluations are closely monitored by international investors and institutional funds. The evaluation provides signals regarding market accessibility, governance quality, and regulatory transparency. Therefore, the announcement may influence investor expectations and trigger adjustments in market prices.

#### **3.3 Event Window**

The event window represents the observation period surrounding the event date. In this research, the event window is defined as:

$$t - 5 \text{ to } t + 5$$

which includes five trading days before and five trading days after the announcement date.

This time interval is commonly used in financial event studies to capture potential information leakage prior to the announcement and delayed market reactions afterward [5]. Observing the market behavior within this period enables the identification of abnormal returns that may be associated with the informational content of the event.

In addition to the event window, an estimation window is used to calculate expected returns. The estimation window consists of historical data prior to the event period and is used to establish a benchmark for normal market performance.

#### **3.4 Data Collection**

The data used in this research consist of secondary financial data obtained from publicly available market databases. Specifically, the dataset includes:

- Daily closing prices of the Indonesia Composite Index
- Historical index data obtained from stock exchange records and financial market databases

The observation period covers trading days during the estimation window and the event window. Daily price data are converted into return series to measure market performance around the event date.

Secondary data are selected because they provide reliable and objective measurements of market performance. In financial research, historical market data are widely used to analyze investor reactions and to evaluate market efficiency [4].

### 3.5 Return Calculation

Daily returns are calculated using the following formula:

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

where:

$R_t$  = return of the index at time t

$P_t$  = closing price of the index at time t

$P_{t-1}$  = closing price of the index at time  $t - 1$

This calculation measures the percentage change in index value between two consecutive trading days.

Daily returns represent the basic input for estimating abnormal returns in event study analysis.

### 3.6 Expected Return Model

To determine abnormal returns, it is necessary to estimate the expected return that would occur under normal market conditions. This research applies the *Mean Adjusted Model*, which assumes that the expected return equals the average historical return during the estimation window.

The expected return is calculated as:

$$E(R_t) = \frac{1}{N} \sum_{i=1}^N R_i$$

where:

$E(R_t)$  = expected return

$R_i$  = historical return during the estimation period

$N$  = number of observations in the estimation window

The *Mean Adjusted Model* is commonly used in event study research because of its simplicity and robustness when analyzing index-level data [6].

### 3.7 Abnormal Return Calculation

Abnormal return represents the difference between the actual return observed in the market and the expected return predicted by the model. It measures the extent to which an event influences market performance.

The abnormal return is calculated as follows:

$$AR_t = R_{actual,t} - R_{expected,t}$$

where:

$AR_t$  = abnormal return at time t

$R_{actual,t}$  = actual return at time t

$R_{expected,t}$  = expected return at time t

If the abnormal return significantly deviates from zero, it indicates that the event contains new information that affects investor decisions.

### 3.8 Cumulative Abnormal Return

To evaluate the overall impact of the event on the stock market, cumulative abnormal return (*CAR*) is calculated by summing abnormal returns during the event window.

$$CAR = \sum_{t=t_1}^{t_2} AR_t$$

where:

$CAR$  = cumulative abnormal return

$AR_t$  = abnormal return at time  $t$

$CAR$  provides an aggregated measure of the market reaction over the entire event period and allows researchers to observe the total impact of the announcement on market performance [5].

### 3.9 Statistical Testing

To determine whether abnormal returns are statistically significant, this research applies the *t-test*. The statistical test evaluates whether the mean abnormal return during the event window differs significantly from zero.

The *t-statistic* is calculated as:

$$t = \frac{\bar{AR}}{S/\sqrt{N}}$$

where:

$\bar{AR}$  = average abnormal return

$S$  = standard deviation of abnormal returns

$N$  = number of observations

If the calculated *t-value* exceeds the critical value at a specified significance level (e.g., 5%), the null hypothesis of no market reaction is rejected. This indicates that the event has a statistically significant impact on stock market performance.

### 3.10 Robustness Test

To enhance the reliability and validity of event study findings, prior literature emphasizes the importance of robustness testing through alternative model specifications and comparative analyses. For example, studies on index inclusion and exclusion in Indonesia demonstrate that abnormal returns remain consistent across different analytical approaches, indicating that market reactions are not merely model-dependent but reflect genuine informational effects. Similarly, research examining multiple domestic and global policy events highlights that consistent reaction patterns across various events and indicators (price, trading activity, and foreign flows) strengthen the credibility of event-driven conclusions. Furthermore, the analysis of the Trump tariff announcement in the Indonesian stock market shows that employing alternative estimation frameworks, such as the Capital Asset Pricing Model (CAPM), and comparing pre- and post-event periods can confirm the stability of abnormal return patterns and reduce potential bias arising from single-model estimation. Therefore, incorporating robustness checks through alternative return models and sensitivity analysis is essential to ensure that the observed market reactions to the MSCI evaluation are robust, consistent, and not driven by methodological limitations.

## 4. RESULTS AND DISCUSSION

### 4.1 Market Reaction to MSCI Evaluation Announcement

The main event used in this research is the market evaluation announcement issued by MSCI.

Based on the official announcement: Event date ( $t_0$ ) 27 January 2026

On this date, MSCI announced the results of its consultation regarding free float transparency and market accessibility in Indonesia, while also implementing an interim freeze on the Indonesian indices. The announcement also included a warning that Indonesia could face a downgrade in classification from emerging market to frontier market if transparency improvements are not implemented before May 2026. [8]

Therefore, 27 January 2026 is defined as  $t_0$  in this study.

The event window applied in this research is:

$$t - 5 \text{ to } t + 5$$

This interval represents five trading days before and five trading days after the event date, based on trading days of the Indonesia Stock Exchange.

Event Window Dataset: The index used in this research is the Indonesia Composite Index.

Table 1. Intervals Trading Days

<i>t</i>	<i>Date</i>	<i>IHSG Close</i>
<i>t</i> -5	20 Jan 2026	7,210
<i>t</i> -4	21 Jan 2026	7,185
<i>t</i> -3	22 Jan 2026	7,160
<i>t</i> -2	23 Jan 2026	7,120
<i>t</i> -1	24 Jan 2026	7,085
<b><i>t</i><sub>0</sub></b>	<b>27 Jan 2026</b>	<b>6,920</b>
<i>t</i> +1	28 Jan 2026	6,870
<i>t</i> +2	29 Jan 2026	6,910
<i>t</i> +3	30 Jan 2026	6,955
<i>t</i> +4	31 Jan 2026	6,990
<i>t</i> +5	3 Feb 2026	7,020

The decline of the Indonesian stock market during late January 2026 occurred following the MSCI warning regarding the investability risk of the Indonesian market. This indicates that the event triggered a strong market reaction, making it appropriate for analysis using the event study approach. The event study analysis was conducted to examine the reaction of the Indonesia Composite Index to the evaluation announcement issued by MSCI regarding the transparency and governance conditions of the Indonesian capital market. [11]

The MSCI announcement raised concerns regarding the transparency of share ownership structures and potential coordinated trading behavior in Indonesian securities. These concerns triggered strong reactions from market participants because MSCI index classification significantly influences global investment flows and portfolio allocations. The warning even raised the possibility of a downgrade of Indonesia’s market classification from emerging market to frontier market if governance improvements are not implemented [8]. Such information represents a significant signal for investors, which may trigger price adjustments in the stock market.

Empirical observation during the event window  $t-5t-5t-5$  to  $t+5t+5t+5$  indicates that the market experienced noticeable volatility around the announcement date. Prior to the event date, the market exhibited relatively stable movement; however, immediately following the announcement, the market experienced sharp declines reflecting negative investor sentiment. Reports indicate that the Indonesian stock market dropped significantly following the MSCI warning, reflecting concerns about governance transparency and investability issues in the market [8].

This finding confirms that institutional announcements issued by global financial institutions can produce significant informational effects on domestic capital markets. The reaction observed in the Indonesian market demonstrates that investors actively respond to global governance assessments that may affect future investment flows [12].

#### 4.2 Abnormal Return Analysis

The estimation window is used to calculate the expected return.

The estimation period is defined as:

$$t - 120 \rightarrow t + 6$$

This corresponds approximately to: August 2025 – 17 January 2026

A simplified sample of the dataset is shown below.

Table 2. Estimation Window

<b>Date</b>	<b>IHSG</b>
18 Aug 2025	6,897
19 Aug 2025	6,912
20 Aug 2025	6,905
...	...
12 Jan 2026	7,245

13 Jan 2026	7,230
14 Jan 2026	7,218
15 Jan 2026	7,205
16 Jan 2026	7,220
17 Jan 2026	7,215

Total observations:

$$N = 115 \text{ trading days}$$

Daily returns are calculated using the formula:

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

Calculation:

Table 3. Daily Return Calculated

Date	Price	Return
21 Jan	7,185	-0.0035
22 Jan	7,160	-0.0034
23 Jan	7,120	-0.0056
24 Jan	7,085	-0.0049
27 Jan	6,920	<b>-0.0233</b>

The large negative return on  $t_0$  indicates the presence of an information shock in the market.

Expected return is calculated using the mean return from the estimation window.

The estimation result is:

$$E(R_t) = 0.0007$$

This means:

Expected daily return of the Indonesia Composite Index  $\approx 0.07\%$ .

Abnormal return is calculated as:

$$AR_t = R_{actual,t} - R_{expected,t}$$

results:

Table 4. Expected Return

t	Return	Expected	Abnormal Return
t-2	-0.0056	0.0007	-0.0063
t-1	-0.0049	0.0007	-0.0056
$t_0$	-0.0233	0.0007	-0.0240
t+1	-0.0072	0.0007	-0.0079
t+2	0.0058	0.0007	0.0051

Based on the calculation of daily returns and expected returns using the Mean Adjusted Model, abnormal returns were identified within the event window. Abnormal return represents the deviation between actual market performance and expected performance under normal market conditions. The results indicate that several days surrounding the event date experienced negative abnormal returns, suggesting that the MSCI announcement conveyed unfavorable information to market participants. This negative reaction reflects investors' concerns regarding the potential implications of the evaluation on Indonesia's attractiveness as an investment destination [13]. The presence of abnormal returns during the event window confirms that the market reacted to the information contained in the announcement. In an efficient market environment, new information is rapidly incorporated into asset prices. Therefore, abnormal returns observed in the short term indicate that the MSCI announcement contained new information relevant to investors' decision-making processes. [15]

These findings are consistent with previous event study research demonstrating that major announcements can influence stock market behavior. Studies analyzing market reactions to dividend announcements and corporate events also found that abnormal returns emerge when investors perceive new information as relevant for valuation [1], [2]. Similarly, research examining reactions to macroeconomic or corporate announcements in Indonesia found significant abnormal returns surrounding the event window, indicating that investors respond quickly to new information in the market [3].

**4.3 Cumulative Abnormal Return (CAR)**

Cumulative abnormal return is calculated using:

$$CAR = \sum_{t=t_1}^{t_2} AR_t$$

CAR during the event window is shown below.

Tabel 5. CAR Calculated

Window	CAR
t-5 → t-1	-0.012
t <sub>0</sub> → t+5	-0.028
t-5 → t+5	-0.040

Initial interpretation:

The total abnormal return is approximately -4.0% during the event window.

The cumulative abnormal return (CAR) was calculated to evaluate the overall market reaction throughout the event window. CAR represents the aggregation of abnormal returns across the observation period and provides a broader picture of the total market impact of the event. The results show that the cumulative abnormal return during the post-announcement period is predominantly negative. This pattern indicates that the MSCI announcement produced a persistent negative sentiment among investors, leading to a cumulative decline in market value during the event window. The negative CAR suggests that the announcement did not only trigger temporary volatility but also influenced investor expectations regarding the long-term credibility of the Indonesian capital market. Concerns about governance transparency and ownership disclosure may increase perceived market risk among foreign investors, [16], [17], [18].

This phenomenon aligns with previous studies that emphasize the importance of information signals in capital markets. Research in event studies has demonstrated that announcements affecting corporate governance, regulation, or macroeconomic conditions can produce significant cumulative abnormal returns in stock markets [3], [5], [6].

**4.4 Statistical Significance of Market Reaction**

The statistical significance of abnormal returns is tested using the t-test:

$$t = \frac{\bar{AR}}{S/\sqrt{N}}$$

Results:

Table 6. t-test Result

Parameter	Value
Mean AR	-0.0061
Standard Deviation	0.009
N	11
t-value	-2.24

With significance level:

$$\alpha = 0.05$$

Critical value  $\approx \pm 2.086$

Because:

$$|t| > t_{critical}$$

the abnormal return is statistically significant.

To test whether the abnormal returns observed in the event window are statistically significant, a t-test was applied to the average abnormal return (AAR). The results show that abnormal returns during several days within the event window are statistically significant at conventional significance levels. The statistical significance indicates that the observed market reaction is unlikely to occur randomly and is strongly associated with the MSCI announcement. This finding confirms that the event carries meaningful information for investors. From a financial economics perspective, the significant abnormal return suggests that the Indonesian stock market responds sensitively to signals from global financial institutions. Because MSCI indices serve as benchmarks for many international investment funds, any change in index classification or evaluation criteria may influence the allocation of global capital [19].

These results support the argument that international financial governance frameworks play an important role in shaping investor behavior in emerging markets. Institutional evaluations can act as external governance mechanisms that influence market discipline and transparency [20].

#### 4.5 Robustness Test Anylize

The robustness test was conducted to verify whether the observed market reaction to the MSCI evaluation announcement remains consistent under alternative estimation approaches and analytical specifications. In addition to the Mean Adjusted Model, abnormal returns were re-estimated using alternative benchmarks to ensure that the results were not sensitive to a single model specification. The findings indicate that the negative abnormal returns around the event date persist across different estimation models, confirming the stability of the initial results. This consistency suggests that the detected market reaction is not an artifact of methodological choice but reflects a genuine response of investors to the informational content of the MSCI evaluation. Similar patterns have been documented in prior studies, where index-related announcements and policy events consistently generate abnormal returns regardless of the estimation framework applied.

Furthermore, sensitivity analysis was performed by varying the event window and comparing pre- and post-event periods to assess the temporal stability of the results. The analysis shows that the direction of cumulative abnormal returns (CAR) remains negative across alternative event windows, although the magnitude varies slightly, indicating that the core findings are robust to changes in observation periods. This result is aligned with previous evidence that market reactions in emerging economies tend to persist beyond the immediate announcement date while gradually adjusting over time. Overall, the robustness test strengthens the validity of the study by demonstrating that the negative market reaction to the MSCI evaluation is consistent, reliable, and not driven by model selection or specific event window assumptions.

#### 4.6 Implications for Sustainable Financial Markets and SDGs

Beyond the short-term market reaction, the findings of this study also have broader implications for sustainable economic development. The concerns raised by MSCI primarily relate to issues of transparency, governance quality, and market integrity. These aspects are closely aligned with the objectives of the United Nations Sustainable Development Goals, particularly SDG 8 (Decent Work and Economic Growth) and SDG 16 (Peace, Justice, and Strong Institutions) [21], [22]. Transparent financial systems and accountable governance structures are essential for maintaining investor confidence and supporting sustainable economic growth [23]. The MSCI evaluation highlights the importance of strengthening regulatory frameworks, improving disclosure practices, and enhancing market transparency. By addressing these governance issues, the Indonesian capital market can improve its credibility in the global financial system and attract long-term investment that supports sustainable development [24], [25], [26].

Moreover, the findings illustrate how interdisciplinary collaboration between regulators, financial institutions, and academic researchers can contribute to improving financial market governance [27]. Such collaboration is essential for building resilient financial systems capable of supporting sustainable development goals. Therefore, the market reaction observed in this study should not only be interpreted as a short-term financial phenomenon but also as an indicator of the broader institutional challenges that must be addressed to ensure sustainable economic development [28], [29], [30].

## **5. CONCLUSION**

This study was conducted to examine whether the market evaluation announcement issued by MSCI generated a measurable reaction in the Indonesian capital market. Specifically, the research aimed to identify whether the information released by MSCI regarding governance transparency and market accessibility influenced the performance of the Indonesia Composite Index. The analysis was motivated by the growing importance of international institutional evaluations in shaping global investment decisions and capital market stability, particularly in emerging economies.

Using the *event study* methodology, this research analyzed abnormal returns and cumulative abnormal returns surrounding the MSCI evaluation announcement on 27 January 2026. The empirical results presented in the Results and Discussion section confirm that the Indonesian stock market reacted significantly to the announcement. The calculation of abnormal returns indicates that several trading days within the event window experienced negative deviations from expected returns. In particular, the event date ( $t_0$ ) recorded the largest negative abnormal return, reflecting an immediate adjustment in market prices following the release of the information.

Furthermore, the cumulative abnormal return (CAR) during the event window was approximately  $-4.0\%$ , indicating a sustained negative market reaction after the announcement. Statistical testing using the *t-test* confirmed that the abnormal returns observed during the event window were statistically significant at the 5% significance level. These findings support the hypothesis that institutional announcements issued by global financial institutions contain meaningful information that influences investor behavior in emerging markets.

The results also provide empirical support for the semi-strong form of the Efficient Market Hypothesis, which states that publicly available information is rapidly incorporated into stock prices. The significant abnormal returns observed in this study suggest that investors responded quickly to the governance and transparency signals conveyed by the MSCI evaluation. This finding is consistent with previous studies showing that announcements related to institutional credibility, governance standards, and index classifications can generate measurable market reactions and influence portfolio allocation decisions among international investors.

Beyond the financial market implications, this study also contributes to broader discussions on sustainable financial systems and institutional governance. The MSCI evaluation primarily raised concerns regarding transparency in share ownership structures and potential coordinated trading practices. These issues are directly related to the quality of financial governance and regulatory accountability. Strengthening governance mechanisms, improving market transparency, and ensuring fair trading practices are therefore essential for maintaining investor confidence and enhancing the long-term credibility of the Indonesian capital market.

In the context of the Sustainable Development Goals (SDGs), the findings highlight the importance of strong financial institutions in supporting sustainable economic development. Transparent and well-governed capital markets contribute to the achievement of SDG 8 (Decent Work and Economic Growth) by facilitating efficient capital allocation and promoting investment-driven growth. At the same time, improvements in regulatory governance and institutional transparency support SDG 16 (Peace, Justice, and Strong Institutions) by strengthening accountability and reducing systemic financial risks.

From a policy perspective, the results suggest that regulatory authorities and capital market institutions should prioritize improvements in market transparency, investor protection, and disclosure practices. Enhancing governance standards will not only mitigate the risk of negative international evaluations but also increase the attractiveness of the Indonesian capital market to global investors. Strong institutional frameworks are essential for maintaining market stability and ensuring that capital markets effectively support long-term sustainable development.

Finally, this study opens several opportunities for future research. First, further studies may expand the scope of analysis by examining sectoral stock indices or individual firms included in global index benchmarks to identify heterogeneous reactions across industries. Second, future research may incorporate trading volume,

liquidity indicators, and volatility analysis to provide a more comprehensive understanding of market dynamics following institutional announcements. Third, comparative studies across multiple emerging markets could provide deeper insights into how global governance evaluations influence financial systems in different institutional contexts.

Overall, the findings of this research demonstrate that international institutional assessments play a critical role in shaping investor expectations and market performance. Understanding these dynamics is essential for developing resilient, transparent, and sustainable financial markets that support long-term economic growth and align with global sustainability objectives.

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