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Reaction of LQ45 Stocks to the Announcement of Danantara's Management

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Abstract – *This study examines the market reaction to the announcement of Danantara's management by analyzing abnormal returns of LQ45 stocks using the event study method. Danantara, as Indonesia's sovereign wealth fund, holds strategic importance for national investment and economic growth. The analysis focuses on stock performance two days before and after the announcement on March 24, 2025. Statistical testing using the Wilcoxon Signed Ranks Test shows a significant difference in abnormal returns, with a p-value of 0.001 in both observed periods. These results indicate that the market responded strongly to the announcement. The findings support the Efficient Market Hypothesis (EMH), suggesting that new public information is quickly reflected in stock prices, and align with Signaling Theory, where management announcements serve as key indicators for investor decisions. While the announcement initially triggered a positive reaction, it was followed by a sharp decline in returns, reflecting investor concerns about governance and transparency within Danantara. This study concludes that in emerging markets like Indonesia, investor sentiment is shaped not only by strategic announcements but also by the perceived credibility of the appointed managers. The accepted hypothesis confirms that management announcements significantly influence market behavior.*

Keywords – *Market Reaction, Abnormal Returns, Danantara*

I. INTRODUCTION

The Indonesian capital market is experiencing dynamic growth. This shows that public information plays an increasingly important role in influencing investment decisions. One significant event that has the potential to change the market direction is the announcement regarding Danantara's management on March 24, 2025. As Indonesia's sovereign wealth fund, Danantara is expected to optimize the management of state assets and provide support for long-term development financing. This expectation is a major concern for market participants. [1].

Danantara is the Investment Management Agency of Daya Anagata Nusantara, established to manage the country's strategic assets and strengthen the national investment ecosystem. It was formed with an initial capital of approximately IDR 1,000 trillion by merging the Indonesia Investment Authority and several state-owned enterprises [2]. This institution is projected to become a driving force for Indonesia's economic growth, with a target asset management value of IDR 14,720 trillion, focusing on strategic sectors such as infrastructure and energy[3].

However, although Danantara is expected to accelerate development and attract global investment, it faces challenges related to transparency and governance, including concerns about the lack of direct supervision by the Corruption Eradication Commission (KPK) and the Audit Board of Indonesia (BPK) [4]. In essence, Danantara represents a vital strategic initiative for Indonesia to manage state assets and attract investment; however, its success depends largely on the effective implementation of good and transparent governance.

Fig. 1 The graph shows the changes in the Indonesia Stock Exchange Composite Index (IHSG) leading up to the announcement of Danantara.

The announcement of Danantara's management provides a valuable opportunity to examine market reactions, particularly toward stocks in the LQ45 index,

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which represent companies with high liquidity and strong financial performance. These stocks have large market capitalizations and stable financial results, making them ideal choices for further analysis[5]. This study aims to identify the market reaction to the announcement and to assess the influence of the Indonesia Stock Exchange Composite Index (IHSG) as an external factor on the price movements of individual stocks within the LQ45 index [6].

II. LITERATURE REVIEW

The Efficient Market Hypothesis (EMH), proposed by Fama in 1970, is a theory in financial economics stating that asset prices, especially stocks, fully and quickly reflect all available information. Therefore, no investor can consistently achieve abnormal returns (alpha) because every new piece of information is immediately incorporated into market prices [7]. The Efficient Market Hypothesis (EMH) states that the capital market efficiently processes information, so stock prices always reflect their intrinsic value at any given time [8]

Practically, the Efficient Market Hypothesis (EMH) implies that investors are price takers who react quickly and rationally to available information. Stock prices adjust rapidly toward a new equilibrium price when new information is released, making the chance of earning abnormal profits very small. However, although EMH is a fundamental theory in capital markets, it has faced criticism because some market phenomena appear inefficient, such as market anomalies and investor behavior that is not always rational.

Signaling theory explains that the information shared by a company can act as a signal for investors to evaluate the company's performance and future prospects. One strong signal is an earnings increase announcement, which is often seen as a sign of good financial health. Bergh found that clear and consistent signals like this can positively influence market reactions. This is shown by a rise in stock prices and increased buying activity after such announcements. Therefore, positive signals from companies play an important role in shaping investor perception and market movement[9].

Stock price movements and trading volume often reflect how the market responds to information related to events that may affect a company's value. Market response analysis typically uses the event study method, which evaluates how quickly and accurately new information is incorporated into stock prices[10] .

Thus, the market's response to information can be monitored through the dynamics of stock prices and trading volume, with the speed and accuracy of this response serving as indicators of market efficiency. Abnormal return is the difference between the actual investment return and the normal or expected return under stable market conditions without extraordinary events [11].

This term describes the unusual profit earned from the difference between the actual return received by the investor and the overall market return[12]. Additionally, abnormal return is defined as the difference between the return considered normal, which investors should expect based on market predictions, and the actual return [13]. Thus, abnormal return reflects the difference between the actual investment return and the market return or the reasonable return predicted by investors.

Pratama (2020) conducted research on market reactions to political events and found that the announcement of the 2019 presidential election caused a significant difference in the trading volume activity of LQ45 stocks (approximately ±3.2%), although the abnormal returns were not significant [14]. A similar finding was reported by Talumewo, Rate, and Untu (2020), who observed that the 2020 New Normal policy caused significant differences in both abnormal returns and trading volumes of state-owned enterprises (SOEs) stocks, with a p-value of 0.002 after the announcement [15]. This pattern indicates that investors respond to structural information through trading activity before adjusting stock prices.

Indrawati (2021) conducted research on the asymmetric reaction of LQ45 stocks to changes in management structure and found that the announcement of the replacement of state-owned enterprise (SOE) directors caused a cumulative abnormal return of -1.8% within five days after the announcement [16]. However, the study on the 2019 Indonesia Advanced Cabinet inauguration did not show a significant difference, indicating that the credibility of the team influences the market response [14].

Comparative analysis shows that the "sell on rumor, buy on news" pattern frequently occurs in LQ45 stocks. Data reveal that the Indonesia Stock Exchange Composite Index (IHSG) rebounded by 2.8% following the Danantara announcement, after previously declining by 4.24% [17]. This mechanism is similar to the market reaction to the 2020 lockdown announcement, where abnormal returns peaked on the fourth day after the event (T+4) [15]. Contemporary studies report that investor skepticism toward Danantara's management remains high (α=0.05) despite technical improvements, indicating that corporate governance and policy transparency are the main factors determining the medium-term reaction of LQ45 stocks.

H1. There is a difference in abnormal returns before and after the announcement of Danantara's management on LQ45 stocks.

III. METHODOLOGY

The sample used in this study consists of all stocks included in the LQ45 index and listed on the Indonesia Stock Exchange during the effective period from February 3, 2025, to April 30, 2025. The event window in this study spans five days. This period was chosen to minimize interference from external factors and to ensure that the observed market reaction truly originates from the announcement. The selection of this observation period also anticipates the possibility of information leakage, where information about management changes may have been known by some market participants before the official announcement.

The approach used is the market-adjusted model, which argues that the expected return is calculated based on the general market return (such as the Indonesia Stock Exchange Composite Index), and the abnormal return is measured as the difference between the actual stock return and the expected market return. [18]

$$R_{it} = Ln\left(\frac{P_{it}-D_{it}}{P_{i,t-1}}\right) \text{.....(1)}$$

R_{it}= realized return of security i*i* in period *t*
P_{it}= stock price of security i*i* in period *t*
D_{it}= dividend paid by security i*i* in period *t*
$P_{i,t-1}$= stock price of security i*i* in the previous period (*t*−1)
Ln = natural logarithm

Abnormal return is the excess of the actual investment return over the normal return, which is the expected return that occurs under stable conditions without any extraordinary events.[19]

$$AR_{it} = R_{it} - E(R)_{it} \text{.....(2)}$$

ARit = abnormal return of security i*i* during event period *t*
Rit = realized return of security i*i* during event period *t*
E(Rit) = expected return of security i*i* during event period *t*

Average Abnormal Return (AAR) is the average of abnormal returns (the difference between actual return and expected return) on day t*t*, calculated using the following formula[16]

$$AAR_t = \frac{1}{N}\sum_{i=1}^{t} AR_{it} \text{.....(3)}$$

AAR_t= Average Abnormal Return at period *t*
N = the number of securities (stocks) observed
AR_{it}= abnormal return of security *i* at period *t*
$\sum_{i=1}^{t}$ =summation over all securities from *i*=1 to *i*=*N*

The data in this study were analyzed using statistical methods, namely the normality test and the Wilcoxon test. The hypothesis testing criteria state that the null hypothesis (H_0) is rejected if the calculated p-value is less than 0.05, and accepted if the p-value is greater than 0.05. Data processing was performed using SPSS version 27 to produce more accurate and structured information. Additionally, the analysis was supported by manual calculations of the average abnormal return (AAR) and the t-statistic to verify the results obtained from SPSS.

IV. FINDINGS AND DISCUSSION

Table 1. Abnormal Return Calculation

Day	LQ45
-2	-0.004792420939
-1	0.0009642566875
0	0.004709897414
+1	6.905123281
+2	-6.921812057

Source: processed secondary data, 2025

The table above shows the calculation of abnormal returns for LQ45 stocks during the period from two days before to two days after the announcement of Danantara's management. Two days before the announcement, the abnormal return was negative at -0.004792420939, while one day before the announcement, it slightly increased to 0.0009642566875. On the announcement day, the abnormal return remained positive but small, at 0.004709897414. One day after the announcement, there was a significant spike in abnormal return reaching 6.905123281; however, on the second day after the announcement, the abnormal return dropped sharply to -6.921812057. This phenomenon indicates a highly volatile market reaction to the Danantara management announcement, with a strong positive response immediately after the announcement followed by a sharp correction the next day.

Table 2. Results of Data Normality Test

Variable	Kolmogrov-Smirnov Test	
	Average Abnormal Return	Sig
Pre 2	0.160	0.006
Pre 1	0.097	0.200
Post 1	0.143	0.022
Post 2	0.101	0.200

Source: processed secondary data, 2025

The data normality test was conducted using the Tests of Normality method. Furthermore, the results of the Wilcoxon test analysis are presented in Table 3.

Table 3. Results of the Wilcoxon Test

	Sig. (2-tailed)
Post 1-Pre 1	0.001
Post 2-Pre 2	0.001

Source: processed secondary data, 2025

The Wilcoxon test results in Table 3 show a significance value of 0.001 for both periods: Post 1-Pre 1 and Post 2-Pre 2. Since this value is below the standard threshold of 0.05, it confirms a statistically significant difference in abnormal returns before and after the announcement of Danantara's new management. This means that the market responded notably to the news, as reflected in the sharp changes in stock performance for LQ45 companies during the event window.

This outcome supports the Efficient Market Hypothesis (EMH), which suggests that financial markets quickly reflect all publicly available information in asset prices. When Danantara's management changes were made public, investors revised their investment strategies. The significant price movements observed shortly after the announcement suggest that the market acted efficiently by incorporating the new information into stock valuations almost instantly.

From the lens of Signaling Theory, the announcement served as more than just routine news—it was interpreted by investors as a signal regarding the fund's future operations and management quality. Danantara, being central to managing Indonesia's national investments, made its management choices particularly influential. Depending on how investors interpreted these signals—either positively or negatively—stock prices moved accordingly, reflecting investor reactions and levels of confidence.

Even though the announcement was of strategic importance, market participants seemed to react with caution. Concerns about the lack of supervision from key oversight institutions like the KPK and BPK raised red flags for many investors. This skepticism appears to have led to a drop in investor confidence, triggering sell-offs and resulting in negative abnormal returns. The data suggest that trust and transparency played major roles in how the market digested the news.

The quick reaction to the Announcement of Danantara's Management suggests that the market may be transitioning toward semi-strong efficiency, where public information is reflected in prices. However, the swift reversal in returns also shows that investor trust remains fragile, especially when governance structures lack clarity. Previous studies by Pratama (2020) and Indrawati (2021) support this, noting that while structural announcements can drive market reactions, long-term stability depends on transparency and institutional credibility.

V. CONCLUSION

The announcement of Danantara's new management attracted the attention of the stock market. This is shown by the Wilcoxon Signed Ranks Test results, which gave a significance value of 0.001—much smaller than 0.05. This means there was a real difference in abnormal returns before and after the announcement. The stock returns increased sharply right after the news but then dropped quickly the next day. This pattern shows that investors responded quickly—some were hopeful, but others were worried—indicating that the market took the announcement seriously.

With these results, the research hypothesis (H_1) is accepted, meaning that the market did react to the announcement. This supports two important theories: the Efficient Market Hypothesis (EMH), which says that markets respond fast to new information, and Signaling Theory, which says that management announcements send important signals to investors. Even though the announcement seemed positive at first, concerns about transparency and governance made some investors doubt the credibility of the new management. This shows that in a developing market like Indonesia, investor reactions are not only based on big plans, but also on how trustworthy the people behind them are.

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