

ANALYSIS OF STOCK PRICE MOVEMENTS ON THE JAKARTA ISLAMIC INDEX DURING THE COVID-19 PANDEMIC

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ABSTRACT

The Covid-19 pandemic has caused panic among capital market participants, which led to stock selling in the market and resulted in a very significant decline in the stock price of the Jakarta Islamic Index (JII) and all sectoral indices on the Indonesia Stock Exchange. This research aims to analyze the movement of the Jakarta Islamic Index and its sectoral indices as well during the Covid-19 pandemic from January to December 2020. The JII sectoral index is not yet available, so it is calculated using a sample of 20 sharia stocks, from 38 stock populations in JII, selected based on the purposive sampling method. This research type is an event study using the moving average (MA) method with descriptive analysis techniques. The results indicate that JII movement pattern tends to fluctuate during 2020. The decline in JII began to be seen in February and March. It experienced a very significant peak of decrease. The events of the government's first announcement of the Covid-19 case in early March continued to trigger the drop of JII. In the second week of March, WHO announced Covid-19 as a Pandemic adding to JII's decline to its lowest position throughout 2020. The Property, Infrastructure, and Miscellaneous Industries sectors were most affected by Covid-19 events in 2020, and these sectors experienced the most profound decline during 2020.

Keywords: Covid-19 Pandemic, JII, and Shari'ah Stock Price

INTRODUCTION

In 2020, countries in the world (including Indonesia) faced the threat of the Covid-19 pandemic, a virus that can cause human death. The number of infected people and even deaths caused by the virus continues to increase daily during 2020. Therefore, the government reacted through several interventions, creating social distancing to contain the spread of this virus. Social distancing, in general, is in the form of keeping a distance, staying at home, working at home, studying at home, and even worshipping at home. Therefore, an intervention's success depends on the intervention's ability to create a suitable form of social distancing to contain the spread of the Covid-19 virus.

Interventions are believed to create an atmosphere of social distancing in society, but social distancing has severe economic consequences and even leads to financial failure. The decline in economic activity reduces the demand for products or commodities, impacting the decrease in people's purchasing power. The turbulent economy triggered a global economic recession.

The dire economic situation due to the Covid-19 pandemic negatively influences the company's performance. This situation was compounded by investor anxiety because uncertainty triggered panic selling of investors in the capital market so that stock prices decreased. This resulted in the drop of the Stock Price Index at the beginning of the Covid-19 pandemic. This phenomenon of investor behavior was investigated by Baker *et al.* (2020) in the American Market and by Phan and Narayan (2020) in the markets of the 25 countries most infected with Covid-19.

In 1970, Eugene Fama introduced the efficient market hypothesis that any new information immediately reflects asset prices. Based on the relevance of the information, Fama then grouped the

market into three efficiency categories: weak, moderate, and strong.

The process of adjusting stock prices for each new information illustrates that the market is still in moderate efficiency, as observed in emerging markets. Management usually uses this situation to convey a credible signal to increase the company's share price.

Several factors can trigger stock price fluctuations: the issuer's fundamental condition, the law of supply and demand, interest rates, foreign exchange, foreign funds on the stock exchange, stock price index, and news and rumours (Arifin, 2001:116). In addition, the company's internal and external factors can affect the company's stock price (Sharif, *et al.*, 2015). Internal factors are company performance, changes in board structure, asset position, dividends and income. At the same time, external factors are government regulations, business cycles, investor attitudes, market conditions, natural disasters, lockouts, and possible strikes.

The shari'ah capital market is an activity related to the public offering and trading of securities, public companies related to the securities issued, and institutions and professions related to securities based on shari'ah principles.

How are the price movements of shari'ah stocks listed in the Jakarta Islamic Index (JII) during the Covid-19 pandemic? This issue is interesting to study because most Islamic shareholders are Islamic investors who may react differently than investors in general when faced with the threat of Covid-19. Unfortunately, previous research examining the reactions of Islamic investors to the Covid-19 pandemic has not been found, at least in the Indonesian market.

This research analyses the price movements of sharia stock incorporated in the Jakarta Islamic Index (JII) during the 2020 Covid-19 pandemic. The research's results using the moving average (MA) method show that the movement pattern of the Composite Stock Price Index and JII fluctuated with identical tendencies during the Covid-19 pandemic. The index dropped deeply in March 2020 and began to move up slowly in the April-August 2020 period. Since September 2020, the index movement declined again in September 2020 due to the implementation of the second phase of the Large-scale social restrictions policy. Since October 2020, the index has continued to strengthen until the end of the year.

In general, the trading mechanism in the Capital Market does not conflict with shari'ah principles because the securities trading mechanism uses the buying and selling principle permitted by Islamic law (DSN-MUI, 2011). However, there are exceptions: the product and the transaction system must comply with sharia principles.

Types of activities of issuers that are not by shari'ah include gambling and games that are classified as gambling or prohibited trade, providing financial services that apply the concept of usury, buying and selling risks containing gharar and maysir, producing, distributing, trading and or providing goods and or services that are prohibited by sharia. Haram because of the substance (haram li-dzatihi), goods and or services that are forbidden because they are not the substance (haram li-ghairihi) determined by the DSN-MUI, goods and services that are harmful (Bapepam, 2013). The implementation of securities trading must be carried out based on prudence. It must not carry out speculation, manipulation and other actions that contain elements of dharar, gharar, usury, maysir, risywah, immorality and tyranny (DSN-MUI, 2011).

Furthermore, this article contains a literature review, research methods, results and discussion. The final section provides conclusions and suggestions for further research.

METHOD

This research analyzes stock price movements to understand how capital market react to the several events of Covid-19 during 2020. This type of research is an event study, a study that

investigates the stock market reaction to an event whose information is published as an announcement (Hartono, 2014: 623).

Stock price movements are represented by fluctuations in the Jakarta Islamic Index (JII) and its sectoral indices. Events that affect stock price movements include several significant events that occurred during the 2020 COVID-19 pandemic and were announced to the public.

Thirty-eight sharia stocks are included in the Jakarta Islamic Index and are listed on the Indonesia Stock Exchange. The research sample amounted to 20 Islamic stocks due to the completeness of the data.

The data analyzed is secondary data. Jakarta Islamic Index daily data and individual stock prices are sourced from yahoo finance and the Indonesia Stock Exchange. Data on announcements of Covid-19 interventions or events are sourced from government publications/Covid-19 task force, WHO and official mass media.

Stock price movement data were analyzed descriptively using the moving average method. This method is caused by a sudden movement of data affected by an event. When buying and selling, moving averages are widely used by practitioners, such as in the technical analysis of stocks. The moving average is faster in determining patterns and decisions to buy and sell stocks. This is a reasonably simple forecasting method that makes predictions using the standard of all historical data owned. This method is used when there is no trend or seasonal pattern.

RESULTS AND DISCUSSION

Jakarta Islamic Index (JII) Movement

Figure 1 shows the movement of the Jakarta Islamic Index (JII) and Jakarta Composite Index (JCI) associated with seven events during 2020.

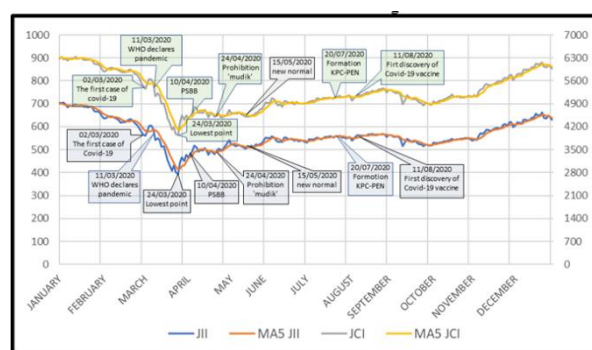


Figure 1
MA5 Charts For JII dan JCI 2020

Figure 1 shows the daily data of JII and JCI, which fluctuated during 2020. Both indices were at their highest in January and then declined consistently until early March and dropped deeply after WHO declared the Covid-19 pandemic. The index moved up slowly in the following months.

The JII movement pattern, as measured by the MA5 JII, tends to decline from the beginning of the year until the first case of Covid-19 was announced on March 2, 2020. Likewise, the MA5 JCI also tends to decrease until March 2, 2020, but with a more gentle downward trend. Therefore, MA5 JII and JCI have the same movement pattern during 2020.

MA5 JII decreased when WHO announced Covid-19 as a pandemic on March 11, 2020. The number of cases infected with Covid-19 on this date amounted to 34 people, and the number of deaths

from those infected amounted to 2. The lowest MA5 JII occurred on March 24, 2020, with 685 infected cases and 55 deaths.

When the government announced the Large-scale social restrictions on April 10, 2020, MA5 JII dropped but not significantly and then it moved up again. At the time of the Large-scale social restrictions announcement, the number of cases infected with Covid-19 was 3.512 people, and 306 people died.

When the government announced the ban on going hometown on April 24, JII's MA5 went down temporarily and then moved up again. This is because investors are not too reactive to the ban on going home even though the number of cases infected with Covid-19 continues to grow to 8.211 people and death cases totalling 689 people. The increase in the index was due to investors' assessment that this government policy was right to suppress the spread of Covid-19.

At the time of the announcement of the new normal on May 15, 2020, investors began to respond positively to the policy taken by the government, even though the number of cases infected with Covid-19 continued to grow to 16.496 people and death cases amounted to 1.076 people. As a result, it can be seen that the MA5 JII is moving up after previously tending to descend slopingly. Although the increase was insignificant because market participants were still holding back, this policy gave a positive signal regarding policies dealing with Covid-19. Furthermore, a week after the announcement of the new normal, the MA5 JII moved up again. This was due to market participants' optimism that the economy's wheels in Indonesia would return to the new usual scenario.

At the time of the formation of the Covid-19 Handling Committee and National Economic Acceleration (KPC-PEN) on July 20, 2020, MA5 JII was still volatile because information on the extension of the Emergency of the Community Activities Restrictions Enforcement was still a negative sentiment for market participants. At the time of the establishment of KPC-PEN, the number of cases infected with Covid-19 had reached 88.214 people, and death cases had reached 4.239 people.

When the first discovery of the Covid-19 vaccine was announced on August 11, 2020, the number of cases infected with Covid-19 had reached 128.776 people, and the death cases reached 5.824 people. As a result, MA5 JII looks to be moving up because market participants highly anticipate the Covid-19 vaccine. Moreover, this positive index movement continued until the end of the year.

Sectoral Index Movement

The figure 2 below shows the movement of each sectoral index during 2020.

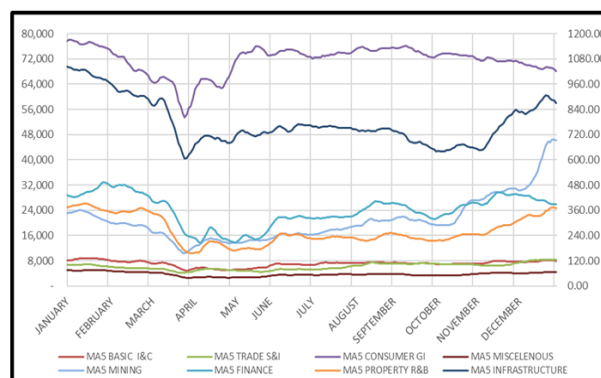


Figure. 2
MA5 Charts For JII Sectoral Index

At the beginning of the spread in Indonesia, when the first case of Covid-19 was announced on March 2, 2020, the movement pattern of all sectoral indices experienced a sharp decline; two sectoral indices fell the most, namely the financial and the various industrial sectors. Furthermore, the sectoral index fell significantly when WHO declared Covid-19 a pandemic on March 11, 2020.

When the government announced Large-Scale Social Restrictions on April 10, 2020, almost all sectoral indices had dropped except for the sectoral trade index, but the decline was insignificant after that; it moved up again at the time of the Large-Scale Social Restrictions announcement.

At the time of the announcement of the new normal on May 15, 2020, investors began to respond positively to the government policy. It can be seen that 4 sectoral indices moved up after previously tending to decline slopingly, namely the sectors of mining, various industrial, property and financial. Although the increase is not too significant because market participants are still holding back, this policy gave a positive signal regarding policies dealing with Covid-19. A week after the announcement of the new normal, the mining sector index moved up again, this was due to the optimism of market players that the wheels of the economy in Indonesia would return to the new normal scenario. On the other hand, as many as 4 sectors weakened, namely basic industrial, consumer goods, infrastructures, and trade and services.

At the time of the formation of the Covid-19 Handling Committee and National Economic Acceleration (KPC-PEN) on July 20, 2020, all sectoral indices were still volatile because information on the extension of the emergency PPKM was still a negative sentiment for market participants. At the time of the formation of KPC-PEN, the number of cases infected with Covid-19 had reached 88,214 people and those who had died of 4,239. However, at the close of trading in July, 7 sectors experienced an increase, the mining sector achieved the highest strengthening, and the only sector that weakened was the property sector.

When the first discovery of the Covid-19 vaccine was announced on August 11, 2020, the number of cases infected with Covid-19 had reached 128,776 people, and 5.824 people died. The movement of the mining sector index looks to continue to increase because capital market players highly anticipate information on the development of the Covid-19 vaccine, and this positive movement will continue until the end of the year. At the end of trading in August, there were 5 sectoral indexes, namely the mining sector, basic industrial sector, consumer goods sector, trade sector and financial sector. The financial sector experienced the highest gain. Meanwhile, the sectors that experienced weakness were the various industrial, property and infrastructure sectors. The infrastructure sector experienced the highest weakening.

The results of this research align with the research conducted by Baker et al. (2020). Based on stock price movements, the stock market responded negatively to the growth in confirmed cases and total deaths due to Covid-19. Likewise with the research of Al-Awadhi et al. (2020) and Ashraf (2020). In line with research conducted by Junaedi and Salistia (2020). The Covid-19 pandemic and government policies influence the movement of the Composite Stock Price Index in overcoming conditions Covid-19 pandemic. This research is also in line with Anh and Gan's (2020) research that the Covid-19 pandemic has affected all industrial sectors.

CONCLUSION

Based on the results of the data analysis, the conclusions of this research are as follows:

1. The Jakarta Islamic Index (JII) movement pattern tends to fluctuate during 2020, the JII decline began in February, and it experienced a very significant decline in March.
2. The first announcement of Covid-19 cases by the Government in early March continued to trigger the fall of JII plus in the second week of March, WHO announced Covid-19 as a pandemic adding

to the fall of JII at its lowest position throughout 2020.

3. The Property, Infrastructure and Miscellaneous Industries sector is the sector most affected by the Covid-19 pandemic in 2020 and is the sector that experienced the most profound decline during 2020.

Based on the results of the data analysis, the suggestions of this research are :

1. This is the right time for investors who want to invest in the capital market during the Covid-19 pandemic or other force majeure. Because the average share price of the company has decreased relatively below its fair value. However, issuers with good company fundamentals must also be considered.
2. For further research, it is necessary to add other variables that affect stock prices, such as macroeconomic variables and financial ratios.

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