

Market Reaction of the Indonesian Banking Sector to the Announcement of MSCI Index Rebalancing Suspension

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Abstract

This study looks into how Indonesian banking stocks reacted to the January 28, 2026, announcement that the MSCI Index rebalancing would be suspended. Using a 15-day observation window that included 7 trading days prior to and 7 trading days following the announcement, an event research methodology was employed. Purposive sampling was used to select the 15 banking companies listed on the IDX. "Average Abnormal Return" (AAR) and "Average Trading Volume Activity" (ATVA) were used to gauge the market's response. The empirical results reveal no statistically significant differences in either AAR or ATVA surrounding the announcement period. These findings indicate that investors did not view the suspension of MSCI Index rebalancing as sufficiently relevant to influence investment decisions in the Indonesian banking sector.

Keywords: Event Study, MSCI, Abnormal Return, Trading Volume Activity, Banking Sector

JEL Codes: G14, G21, G15

1. Introduction

1.1 Background of the Study

The capital market serves as an important mechanism for facilitating the flow of funds from investors to companies seeking financial resources for operational and investment purposes ([Tandelilin, 2017](#)). As financial markets become increasingly interconnected across countries, developments occurring in one market can rapidly influence investment conditions and market performance in other regions ([Bekaert & Harvey, 2020](#)).

Among the various external factors influencing international financial markets, changes related to global stock indices have attracted considerable attention from investors. One of the most widely used benchmarks is the MSCI Index, which serves as a reference for portfolio allocation decisions across different countries and regions ([MSCI, 2023](#)). Consequently, policy adjustments associated with the index may affect investment flows, market liquidity, and investor behavior within domestic capital markets.

Previous research has shown that adjustments in global stock indices may influence investor reactions in the capital market. For example, research by [Li et al. \(2024\)](#) indicates that the

inclusion of China A-Shares into the MSCI Index generated positive abnormal returns and attracted foreign capital inflows to the Chinese stock market. Similarly, [Zhang, Liu, and Chen \(2025\)](#) found that companies included in the MSCI Emerging Markets Index experienced improved investment efficiency due to increased attention from global investors.

A number of studies also indicate that modifications in stock index composition can affect market liquidity and trading activity. [Yilmaz, Aksoy, and Tatoglu \(2020\)](#) demonstrated that companies included in sustainability indices experienced an increase in market value because investors interpreted the inclusion as a positive signal regarding corporate reputation. These findings indicate that changes in global indices are often perceived by investors as information containing economic value.

Previous studies such as [Ahmed et al. \(2021\)](#) and [Hacibedel and Gupta \(2023\)](#) also suggest that global index changes can influence stock price movements through portfolio adjustments conducted by institutional investors.

Nevertheless, most previous studies focus on index inclusion or exclusion events that directly alter index composition and trigger portfolio adjustments by institutional investors ([Ahmed et al., 2021](#); [Hacibedel & Gupta, 2023](#)). Research examining the impact of non-compositional index policies, such as the suspension of index rebalancing, remains relatively limited in the international finance literature.

Furthermore, most MSCI-related studies concentrate on developed markets or large emerging markets such as China and India ([Li et al., 2024](#); [Wang et al., 2023](#)). There are currently not many studies that explicitly examine how global index strategies affect specific industries in developing nations like Indonesia.

In the Indonesian context, the effects of index inclusion and exclusion on stock returns and trading volume have been examined in a number of studies ([Widyawati & Wibowo, 2021](#); [Heriyanto, 2019](#)). In contrast, research examining market reactions to the suspension of MSCI Index rebalancing policies in specific sectors, particularly the banking sector, remains limited.

The limited number of studies discussing non-compositional index policies encourages further investigation in this area.

In Indonesia, the banking industry represents a dominant sector within the capital market due to its large capitalization and high trading liquidity. Banking stocks generally have large market capitalization, high liquidity, and significant weight in the composite stock index. Due to these characteristics, banking sector stocks are often included in global investment portfolios and become constituents of several international indices.

On January 28, 2026, MSCI announced the suspension of the rebalancing process for Indonesian stocks. This policy is relatively unusual because index rebalancing is typically conducted periodically to adjust the index composition based on market capitalization and liquidity considerations. The suspension of the rebalancing process may create uncertainty regarding potential capital inflows or outflows in the Indonesian capital market.

The Efficient Market Hypothesis, put forth by [Fama in 1970](#), states that stock prices often take into account publicly available information in a comparatively short amount of time. Therefore, if the announcement regarding the suspension of MSCI Index rebalancing conveys information considered relevant by investors, the market reaction should be observable through movements in stock returns and trading activity surrounding the announcement date.

1.2 Research Objectives

Referring to the issues discussed previously, the objective of this study is to examine the response of the Indonesian capital market, namely the banking industry, to the announcement of the suspension of MSCI Index rebalancing.

Specifically, this study seeks to analyze whether there are differences in “Average Abnormal Return” (AAR) and “Average Trading Volume Activity” (ATVA) prior to and during the MSCI Index rebalancing halt notice. It is anticipated that the research's conclusions would offer factual proof of how the Indonesian banking industry responds to statements on global index policy.

2. Literature Review

2.1 Efficient Market Hypothesis

The “Efficient Market Hypothesis” (EMH) proposed by [Fama \(1970\)](#) recommends that securities prices promptly take into account the information that is available. As new information enters the market, investors evaluate and respond to it, causing stock prices to adjust accordingly. Under efficient market conditions, due to the quick reflection of pertinent information in market prices, there are few opportunities to regularly generate anomalous profits.

Weak-form efficiency, semi-strong-form efficiency, and strong-form efficiency are the three categories into which Fama divided market efficiency. The semi-strong form makes the assumption that stock prices accurately reflect all information that is accessible to the public. Consequently, announcements containing new and relevant information are expected to influence investor behavior, stock returns, and trading activity shortly after the information becomes available.

EMH offers a theoretical framework for evaluating whether a certain event transmits information that market participants deem valuable in the context of event study research. A significant market response indicates that investors perceive the event as informative, whereas an insignificant response suggests that the information is either anticipated or considered less relevant to investment decision-making.

2.2 Market Reaction and Event Study

Event study methodology is commonly adopted in capital market studies to evaluate market reactions surrounding particular events by analyzing stock price movements within a defined time frame. This method examines stock price movements within a certain time window around an event date to determine whether the event generates abnormal returns or changes in trading activity.

Event study methodology has also been widely recognized as an effective approach for measuring market reactions to public announcements and financial events ([Mackinlay, 1997](#); [Sorescu et al., 2017](#)).

According to [Hartono \(2013\)](#), the difference between the actual stock return and the predicted return under typical market conditions is known as the anomalous return. If the market reacts to an event, abnormal returns will appear during the event window period. In addition to abnormal return, trading volume activity is also frequently used as an indicator of market reaction because changes in investor behavior are often reflected through fluctuations in trading volume.

In the Indonesian context, previous studies such as [Lukman \(2023\)](#) and [Zahra \(2023\)](#) also documented that abnormal return and trading volume activity are commonly used to capture investor responses toward important market events.

Numerous empirical research have investigated how global index policies affect the behavior of the stock market. [Chen et al. \(2020\)](#) found that stocks included in global indices often experience positive abnormal returns due to increased demand from international investors. [Lee and Park \(2021\)](#) also reported that changes in MSCI Index composition can increase stock liquidity in emerging markets.

On the other hand, not all studies find consistent results. [Prasetyo and Lestari \(2022\)](#) reported that certain international policy announcements did not significantly affect stock returns in Indonesia. Similarly, [Hidayat \(2023\)](#) concluded that company fundamentals often have a stronger influence on stock price movements compared to technical policy changes in global indices.

The inconsistent findings from previous studies suggest that market reactions may differ depending on market characteristics and investor perceptions.

This argument is consistent with [Pandey \(2021\)](#), who found that stock market reactions to global events differ between developed and emerging markets depending on market conditions. Similarly, [Caporale et al. \(2022\)](#) emphasized that market persistence and investor sentiment may shape stock index movements over time.

Furthermore, trading volume activity is also frequently used as an additional indicator to capture investor behavior in response to market events. [Laili et al. \(2022\)](#) found that trading activity tends to increase around major economic announcements, reflecting heightened investor attention. However, in some cases, trading volume remains relatively stable when the information conveyed does not directly affect company performance or expected returns.

Based on these mixed findings, it can be inferred that market reactions to global index policies are conditional and vary across different contexts, including market maturity, sector characteristics, and the nature of the event itself. Therefore, further investigation is necessary to examine how the Indonesian banking sector responds to the announcement of the suspension of MSCI Index rebalancing, which represents a non-compositional index policy.

Drawing upon the theoretical arguments and evidence from prior studies, the following research hypotheses are proposed:

H1: There is a difference in Average Abnormal Return (AAR) before and after the announcement of the MSCI Index rebalancing suspension.

H2: There is a difference in Average Trading Volume Activity (ATVA) before and after the announcement of the MSCI Index rebalancing suspension.

3. Research Method

3.1 Research Approach

This study analyzes market responses to a particular announcement utilizing a quantitative research design and an event study framework. The event study approach is widely used in capital market research because it enables researchers to observe whether an event is followed by unusual changes in stock returns and trading activity within a predetermined observation window.

This study looks at the news on January 28, 2026, that the MSCI Index rebalancing would be suspended. The market reaction is analyzed by observing stock returns and trading volume activity around the event date.

3.1.1 Event Window

Seven trading days prior to the announcement ($t-7$ to $t-1$) and seven trading days following the announcement ($t+1$ to $t+7$) make up the fifteen-day event window used in the analysis. This observation period is intended to capture possible market responses occurring around the event date.

The use of a relatively short event window aims to minimize the influence of other external factors that may affect stock price movements.

3.1.2 Event Date

The event date (t_0) in this study is January 28, 2026, which corresponds to the official announcement of the suspension of MSCI Index rebalancing for Indonesian stocks.

This date serves as the reference point for analyzing stock price movements and trading activity during the event window.

3.2 Population and Sample

All banking firms registered on the IDX make up the study's population. The sample was chosen using a purposive selection strategy based on a number of predetermined criteria as not every business meets the research requirements.

The criteria used to determine the research sample include:

1. Banking sector companies listed on the IDX.
2. Stocks that are actively traded during the observation period.
3. Stocks that do not experience trading suspension during the event window period.
4. Companies that do not conduct corporate actions that may significantly affect stock prices during the observation period.
5. Availability of complete data on daily stock prices and trading volume.

Fifteen banking industry organizations were selected as the research sample based on these criteria: BBKA, BBRI, BMRI, BBNI, BNGA, BDMN, PNB, MEGA, BNII, NISP, BTPN, BJBR, BJTM, SDRA, and ARTO.

3.3 Data Collection and Data Sources

Secondary data from official capital market sources and publicly accessible financial databases are used in this study. Daily stock prices and trading volumes of banking companies listed on the IDX are included in the data. This information was gathered from official stock exchange databases and financial market platforms.

In addition, data on the Composite Stock Price Index (IHSG) were also collected to represent overall market performance. The IHSG data are used to calculate market returns required in the estimation of expected returns within the event study framework.

The data used in this study include daily closing prices and daily trading volumes during the observation period. Calculating stock returns, abnormal returns, and trade volume activity

around the event date requires these data.

3.4 Data Analysis Technique

The analytical procedure follows an event study framework that is widely applied in financial research. Several stages were carried out to evaluate the market response to the announcement regarding the suspension of MSCI Index rebalancing.

First, the actual return of each stock is calculated using daily closing prices during the observation period. Second, the market-adjusted approach, which assumes that a stock's expected return is equal to the market return reflected by the Composite Stock Price Index (IHSG), is used to estimate expected return.

Third, the disparity between the actual and predicted returns is known as the anomalous return. After calculating abnormal returns for each company, the AAR is obtained to represent the overall market reaction.

In addition to abnormal return, this study also calculates "Average Trading Volume Activity" (ATVA) to examine changes in investor trading behavior around the event date.

In this study, AAR is a metric used to gauge the response of stock prices, while Average Trading Volume Activity (ATVA) is used to capture changes in investor trading behavior. These factors were chosen to offer a thorough comprehension of market reaction from the standpoints of price and trading activity. Additionally, a paired sample t-test is used for hypothesis testing in order to see whether there are any notable differences prior to and following the event.

A Shapiro-Wilk test was used to determine whether the data were normally distributed before hypothesis testing. A paired sample t-test was used to compare market responses before and after the incident when the normalcy assumption was met.

4. Findings and Discussions

The findings of the empirical research carried out to investigate the market response of Indonesian banking sector equities to the news of the MSCI index rebalancing halt on January 28, 2026, are presented in this section. The analysis focuses on two main indicators commonly used in event study research, namely AAR and ATVA.

To determine whether there has been an unusual shift in stock prices around the event date, the abnormal return formula is utilized. Meanwhile, trading volume activity is analyzed to observe changes in investor trading behavior during the event window period. By examining both indicators, this study seeks to capture the market response from both price movements and trading intensity perspectives.

The observation period in this study covers fifteen trading days consisting of seven days before the event ($t-7$ to $t-1$) and seven days after the event ($t+1$ to $t+7$), with January 28, 2026 designated as the event date. The following subsections present the empirical findings related to abnormal return, normality testing, hypothesis testing, and trading volume activity.

4.1 Average Abnormal Return (AAR)

Table 1 displays the Average Abnormal Return (AAR) for the observation period in order to characterize the market response. Fifteen banking sector companies' abnormal returns within the event window period of $t-7$ to $t+7$ surrounding the announcement date are used to calculate the AAR values.

The empirical results show that the AAR values vary before and after the event date throughout

the observation period. Prior to the announcement, several periods show positive abnormal returns, while other periods show negative values. After the announcement, similar fluctuations are observed, indicating that stock prices responded in different directions during the event window.

However, the magnitude of these fluctuations does not indicate a consistent abnormal pattern around the event date. This suggests that the announcement of the suspension of MSCI Index rebalancing did not trigger a strong reaction in the Indonesian banking sector.

In general, the descriptive findings of AAR show relatively small fluctuations without a significant spike during the event period. These results imply that the market did not overreact or underreact to the announcement of the suspension of MSCI rebalancing.

The descriptive AAR results for banking sector equities during the event window period surrounding the news of the suspension of MSCI Index rebalancing are shown in Table 1.

Table 1. Average Abnormal Return (AAR)

Period	Mean
t-7	0.0906
t-6	0.0013
t-5	-0.1915
t-4	-0.0283
t-3	-0.0644
t-2	0.0382
t-1	0.0077
t+1	-0.1494
t+2	0.1646
t+3	-0.6858
t+4	0.3549
t+5	0.0418
t+6	-0.0740
t+7	-0.2914

Source: Processed research data (2026)

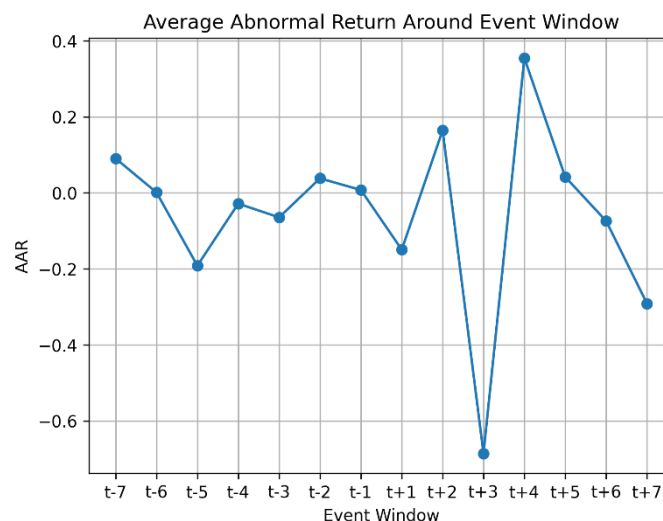


Figure 1. Average Abnormal Return (AAR) Around the Event Window

Source: Processed research data (2026)

4.2 Normality Test

The Shapiro-Wilk test was used to assess the data distribution's normality prior to hypothesis testing. This process was carried out to make sure the data met the presumptions needed for parametric statistical analysis.

The test results produced significance values of 0.200 for both the pre-event and post-event AAR data. Since these values exceed the 0.05 significance threshold, the data can be categorized as normally distributed.

Because the normality assumption was fulfilled, the paired sample t-test was used as the proper parametric statistical technique for additional hypothesis testing in this investigation.

Table 2. Shapiro-Wilk Normality Test

Variable	Statistic	Sig.
AAR Before	0.962	0.200
AAR After	0.955	0.200

Source: Output (2026)

4.3 Difference Test of Average Abnormal Return (AAR)

The paired sample t-test was applied to compare AAR values before and after the announcement of the MSCI Index rebalancing suspension. This investigation sought to ascertain whether the incident had a significant impact on stock returns in the Indonesian banking industry.

The statistical analysis produced a significance value (Sig. 2-tailed) of 0.616, exceeding the significance threshold of 0.05. These results indicate that no statistically significant difference exists between abnormal returns observed before and after the announcement.

Accordingly, the first hypothesis proposed in this study is rejected. This finding implies that the suspension of MSCI Index rebalancing did not contain sufficiently strong information to influence investor expectations or trigger notable stock price reactions in banking sector companies.

Table 3. Paired Sample T-Test

Condition	Mean Difference	Std. Deviation	t	df	Sig. (2-tailed)
AAR Before – AAR After	0.0704	0.353	0.529	6	0.616

Source: Output (2026)

4.4 Average Trading Volume Activity (ATVA)

In addition to analyzing stock returns, this study also examines investor behavior through Average Trading Volume Activity (ATVA). This indicator is used to identify whether investors changed their trading intensity in response to the announcement of the MSCI Index rebalancing suspension.

The analysis results reveal fluctuations in trading volume throughout the observation period. An increase in trading activity was observed shortly after the announcement date, particularly at t+1. However, the increase did not persist during the following trading days, indicating that the market response was only temporary.

Overall, throughout the event window, the movement of trade volume stayed comparatively steady. This circumstance implies that after the disclosure, investors did not materially alter

their trading patterns or portfolio allocation choices.

The relatively stable trading activity may also indicate that investors considered the suspension policy to have limited direct implications for company fundamentals and future stock performance in the banking sector.

Table 4. Average Trading Volume Activity (ATVA)

Period	Mean
t-7	0.0109
t-6	0.0073
t-5	0.0105
t-4	0.0083
t-3	0.0071
t-2	0.0093
t-1	0.0084
t+1	0.0420
t+2	0.0202
t+3	0.0144
t+4	0.0094
t+5	0.0125
t+6	0.0118
t+7	0.0107

Source: Processed research data (2026)

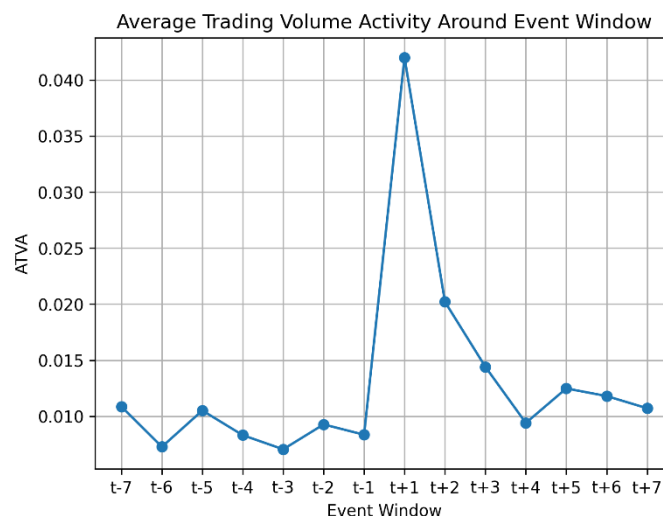


Figure 2. Average Trading Volume Activity (ATVA) Around the Event Window

Source: Processed research data (2026)

4.5 Discussion

The empirical evidence obtained from this study suggests that the announcement concerning the suspension of MSCI Index rebalancing did not create a substantial response among investors in the Indonesian banking sector. Both stock return behavior and trading activity remained relatively unchanged during the observation period, indicating that market participants did not regard the announcement as highly influential information.

This outcome can be interpreted through the Efficient Market Hypothesis framework

introduced by [Fama \(1970\)](#). The absence of significant abnormal returns may indicate that the information conveyed by the announcement had already been incorporated into investor expectations or was not considered important enough to justify portfolio adjustments. As a result, stock prices remained relatively stable around the event date.

The characteristics of banking companies may also help explain the observed findings. Banking stocks generally represent firms with large market capitalization, strong liquidity, and established financial performance. Consequently, investors may focus more on long-term fundamentals than on temporary policy developments associated with international stock indices.

The results of this study are mostly in line with those published by [Hidayat \(2023\)](#) and [Prasetyo and Lestari \(2022\)](#), who found that several international policy announcements did not always generate significant reactions in the Indonesian stock market. However, the present findings differ from those of [Chen et al. \(2020\)](#) and [Lee and Park \(2021\)](#), which documented noticeable market responses following changes related to global stock indices. These differences suggest that the impact of a particular event may vary depending on investor interpretation, market conditions, and the economic relevance of the information released.

In addition, the relatively stable market response observed in this study may also reflect the increasing maturity of the Indonesian capital market. Investors appear to respond more selectively toward information that has direct economic relevance. Since the suspension of MSCI Index rebalancing did not directly modify index constituents or create immediate portfolio adjustment pressure, the announcement may not have been viewed as a strong signal requiring major investment action.

The findings also provide additional evidence from an emerging market setting, indicating that international financial policy announcements do not always generate observable reactions in stock returns or trading activity.

From a practical standpoint, the findings imply that investors should evaluate the economic substance of an announcement before expecting short-term profit opportunities. For regulators and capital market stakeholders, the relatively stable reaction observed in this study may be interpreted as evidence of increasing market resilience and a more selective response to external information.

5. Conclusion

This research examined the reaction of banking sector stocks in Indonesia to the announcement of the MSCI Index rebalancing suspension issued on January 28, 2026. With a fifteen-day observation period that included seven trading days prior to the event date and seven trading days following the announcement, the study used an event study methodology.

The empirical findings show that the announcement did not generate a statistically significant change in Average Abnormal Return (AAR). The paired sample t-test results indicate that stock returns before and after the announcement were not significantly different, suggesting that investors did not perceive the event as information capable of altering firm value or future performance expectations.

A similar pattern was observed in trading activity. Although trading volume increased shortly after the announcement, the change was temporary and was not followed by a sustained increase throughout the event window. This result indicates that the announcement did not trigger

substantial adjustments in investor trading decisions.

Overall, the Indonesian banking sector demonstrated a relatively stable response to the suspension of MSCI Index rebalancing. These findings suggest that global index-related announcements do not always produce strong market reactions, particularly when the information is not considered to have immediate economic consequences for listed companies. The study also provides additional evidence regarding the resilience of the Indonesian banking sector in responding to external financial information.

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