Journal of Business, Social and Technology
Volume 7, Issue 3, 1569-1581
e_ISSN: 2807-6362
https://bustechno.polteksci.ac.id/index.php/jbt/index
DOI: doi.org/10.59261/bustchno.v7i3.710

Stock Market Reaction of LQ45 U.S.-Trading Partners

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Article Info:
***Article history*:**
Received: June 05, 2026
Revised: July 03, 2026
Accepted: July 21, 2026
Available Online: September 05, 2026

***Keywords*:**
Abnormal Return; Efficient Market Hypothesis; Event Study; Stock Market Reaction; Trump Reciprocal Rates 2025.

Abstract

Background: The reciprocal tariff policy introduced by President Donald J. Trump on April 2, 2025, triggered widespread uncertainty across global financial markets, with notable implications for Indonesia's equity market. International trade measures of this nature can reshape investor sentiment, particularly among firms with substantial commercial ties to the United States.
Objective: This research investigates how Indonesian equity market participants responded to the 2025 U.S. reciprocal tariff announcement by comparing average abnormal returns across pre- and post-event periods and examining market behavior surrounding the announcement date.
Methods: Employing a quantitative event study design, this research selects LQ45 constituents engaged in U.S. trade activities through purposive sampling. The market-adjusted model is used as the benchmark for estimating expected returns, and the analysis incorporates descriptive statistics, paired-sample t-tests, and one-sample t-tests to examine abnormal return patterns.
Results: The findings reveal a statistically significant difference in average abnormal returns between the pre- and post-announcement periods. Notably, negative abnormal returns emerged on d−2 and d−1 before the announcement, suggesting that market participants had already incorporated the anticipated policy effects into stock prices prior to the official disclosure.
Conclusion: These results indicate that Indonesia's equity market demonstrated an efficient response to publicly available information, consistent with the characteristics of semi-strong form market efficiency. The study highlights the significant role of international trade policies in shaping investment behavior and emphasizes the importance of incorporating cross-border economic risks into portfolio management strategies.

To cite this article: Bhuana, H. S., & Purbawangsa, I. B. A. (2026). *Stock market reaction of LQ45 U.S.-trading partners. Journal of Business, Social and Technology, 7*(3), 1554–1581. https://doi.org/10.59261/bustechno.v7i3.710

INTRODUCTION

Capital markets serve a vital function within national economies by reflecting prevailing economic conditions and responding to a wide range of developments, including political and social factors. In addition to functioning as a barometer of economic health, these markets provide investors with alternative opportunities to generate higher returns, although such opportunities are accompanied by increased uncertainty and risk (Putri & Nurwulandari, 2020).

Given their open and interconnected nature, capital markets demonstrate pronounced sensitivity to changes in international economic and political landscapes. Regulatory and policy changes enacted by dominant economies—particularly the United States—frequently generate significant responses across global financial markets. A pivotal development was the introduction of the reciprocal tariff framework by U.S. President Donald Trump in 2025, which was widely interpreted as a protectionist initiative with the potential to intensify international trade tensions and disrupt global supply chains.

This heightened uncertainty may affect investor confidence and alter investment allocation patterns across multiple jurisdictions, including Indonesia. Previous studies have demonstrated that macroeconomic and political factors influence stock price movements, while information related to political events can increase market activity and trigger fluctuations in stock exchanges (Cahyono et al., 2023; Manurung, 2019; Usman et al., 2020). Furthermore, capital markets can serve as instruments for evaluating the economic consequences of political events (Lausegger, 2021).

Equity prices undergo continuous adjustments driven by firm-specific and macroeconomic determinants. Market valuations incorporate not only historical information but also current and forward-looking information, including expectations regarding political developments (Fidiana, 2020; Kusumayanti & Suarjaya, 2018). Market participants generally form expectations regarding future events and adjust their investment strategies accordingly, a process that can subsequently influence stock price movements (Pratama et al., 2020). Previous research has confirmed that the Indonesian capital market responds not only to economic events but also to political developments, with abnormal price movements becoming an important concern for both researchers and market practitioners (Caporale & Plastun, 2021; Saraswati & Mustanda, 2018).

Global sentiment transmission can be observed through the LQ45 Index, a benchmark index comprising the most liquid and actively traded equities on the Indonesia Stock Exchange. By representing the performance of large-capitalization companies with high trading activity, the LQ45 Index serves as an important indicator of market conditions and a key reference for investors in assessing risk-return characteristics (Mirayanti & Wirama, 2017; Oktafiani, 2022; Prakoso et al., 2018). Fluctuations in the LQ45 Index can indicate how investors interpret and respond to external shocks, including international economic policy changes and broader geopolitical developments (Bakri Katti, 2018; Rachmawati, 2019).

Among external factors influencing equity market dynamics, international trade policy represents a significant determinant. Escalating trade disputes, tariff adjustments, and protectionist policies increase uncertainty regarding future corporate earnings and operational sustainability (Chengying et al., 2022; Lai, 2019). The reciprocal tariff policy introduced by Trump in 2025 potentially increased trade costs, disrupted export-import activities, and affected companies with substantial international exposure. Investors may perceive such policies as unfavorable signals and respond by restructuring their portfolios to mitigate potential risks. Within today's highly interconnected financial system, information regarding international economic policies spreads rapidly and can influence market positioning within a short period (Muh Reski et al., 2021).

These conditions may generate negative abnormal returns, particularly among issuers that maintain trade relationships with the United States. Negative abnormal returns indicate that actual returns are lower than expected returns due to changes in investor sentiment following the arrival of new information. Increasing uncertainty surrounding global trade conditions may also contribute to greater stock price volatility as investors reassess risks associated with international economic policies (Yuneline & Sofyan, 2020). Previous studies have confirmed that political and economic developments originating from abroad contain information capable of generating significant responses within Indonesia's equity market (Harjoto et al., 2021; Shi et al., 2021).

This study examines market reactions through average abnormal returns among LQ45 issuers with trade relationships with the United States. Market reaction reflects investors' responses to specific information or events, while abnormal returns are employed to determine whether an event contains sufficient information to influence stock prices. Using an event study approach, this research evaluates whether the announcement of Trump's 2025 reciprocal tariff policy generated significant market reactions before, during, and after the announcement period.

The novelty of this study lies in its examination of the Indonesian stock market response to Trump's 2025 reciprocal tariff policy, a specific international trade policy event that has received limited attention in previous Indonesian capital market research. Prior studies have predominantly focused on domestic policy announcements, general political events, or broader trade conflicts. Ariyani (2017) examined semi-strong market efficiency in relation to domestic policy announcements, while Gusti et al. (2017) investigated market efficiency without emphasizing specific geopolitical events. General political events but did not specifically analyze international trade policy shocks. This research contributes by examining LQ45 issuers with direct exposure to U.S. trade relations and assessing whether abnormal returns occurred prior to the official announcement, which may indicate market anticipation or potential information leakage.

This research is important because the increasing integration of Indonesia's capital market with global economic conditions requires a deeper understanding of how investors respond to international policy changes. From a theoretical perspective, this study contributes to market reaction research, event study methodology, and Efficient Market Hypothesis (EMH) testing by providing empirical evidence regarding information assimilation in emerging markets. From a practical perspective, the findings may assist investors in developing risk management strategies and provide regulators with insights into maintaining market stability amid global economic uncertainty.

This study aims to analyze differences in average abnormal returns before and after the announcement of Trump's 2025 reciprocal tariff policy among LQ45 issuers with trade relationships with the United States. Furthermore, this study investigates market reactions surrounding the announcement period using an event study approach with a seven-trading-day observation window, consisting of three trading days before the event, the announcement date, and three trading days after the event.

METHOD

This study investigated the stock market response of LQ45 issuers with trading relationships with the United States following the announcement of Trump's 2025 reciprocal tariff policy on April 2, 2025. The research applied an event study framework to evaluate whether the policy announcement contained information capable of influencing market behavior. Average abnormal return (AAR) was employed as the primary measurement to identify market reactions. The event study methodology is widely used within the Efficient Market Hypothesis (EMH) framework to evaluate market efficiency, particularly the semi-strong form, by measuring the extent to which equity prices incorporate publicly available information (Tandelilin, 2010).

The sample consisted of LQ45-listed firms with documented international trade exposure to the United States. The observation period covered seven trading days, including three days prior to the announcement (d-3 to d-1), the announcement date (d0), and three days following the event (d+1 to d+3). This event window was selected to capture investor responses before and after the policy announcement and to identify potential anticipation effects surrounding the event.

Secondary quantitative data obtained from the Indonesia Stock Exchange (IDX) and Investing.com were used in this analysis. The dataset included daily closing stock prices and market index values, from which actual returns, expected returns, abnormal returns, and average abnormal returns were calculated throughout the observation window. The processed data were subsequently analyzed to determine whether significant differences existed in market reactions before and after the announcement of Trump's 2025 reciprocal tariff policy.

This research adopted a quantitative approach using the event study method to measure changes in average abnormal returns associated with the announcement of Trump's 2025 reciprocal tariff policy. This methodological approach was appropriate because the study aimed to statistically determine whether a specific public event caused equity prices to deviate from expected market performance. Event studies are designed to assess the impact of information announcements on stock prices by examining abnormal returns occurring around an event period. The application of this technique was also consistent with EMH principles, which suggest that equity prices adjust rapidly when new information becomes available (Ariyani, 2017).

The analysis focused on abnormal return movements among LQ45 companies with trade exposure to the United States. The announcement of Trump's 2025 reciprocal tariff policy was treated as an information event that could alter investor expectations, risk perceptions, and investment decisions. Therefore, abnormal return patterns across the pre-event, event-day, and post-event periods were examined to evaluate the direction and speed of market adjustment.

The research was conducted within the Indonesian capital market environment using companies listed in the LQ45 Index on the Indonesia Stock Exchange (IDX). The LQ45 Index consists of 45 highly liquid stocks selected based on trading activity and market capitalization, representing an important segment of market activity on the IDX (Oktavian & Prasetyo, 2023). The study specifically examined issuers with international trade exposure to the United States because these companies were considered more directly affected by changes in U.S. trade policies.

The observation period was centered on April 2, 2025, which represented the official announcement date of Trump's reciprocal tariff policy. The seven-day event window consisted of three trading days before the announcement (d-3 to d-1), the announcement day (d0), and three trading days after the announcement (d+1 to d+3). This relatively short event window was selected to capture immediate market responses while minimizing the influence of unrelated external events.

The study population comprised all firms included in the LQ45 Index during the February 2022 to February 2025 listing period. The LQ45 Index was selected because its constituent companies represent actively traded stocks with strong market performance characteristics (Suhadak et al., 2019). Sample selection was conducted using a purposive sampling approach based on predetermined eligibility criteria. First, each firm was required to maintain continuous LQ45 membership throughout the three-year period from February 2022 to February 2025. Second, the companies were required to have trade relationships with the United States through export or import activities.

The purposive sampling technique was applied to ensure that the selected companies were relevant to the research objective, particularly in assessing market sensitivity toward the announcement of Trump's 2025 reciprocal tariff policy.

This study used secondary data consisting of daily stock prices, market index data, and information regarding the announcement date of Trump's 2025 reciprocal tariff policy. Stock price data were obtained from the Indonesia Stock Exchange and Investing.com, while market index data were utilized to estimate expected returns and abnormal returns. Secondary data were selected because the research examined historical market responses based on publicly available financial information.

April 2, 2025, was designated as the event date, corresponding with the formal announcement of the reciprocal tariff policy. The collected data were processed to calculate actual returns, expected returns, and average abnormal returns in order to identify stock market responses during the event window.

Average abnormal return represented the primary variable of interest and was defined as the difference between realized returns and expected returns during the observation period. Realized returns were derived from daily stock price movements, whereas expected returns were estimated using the market-adjusted model, which assumes that expected individual stock returns are equivalent to contemporaneous market index returns.

The research instruments included daily stock price data, market index data, and statistical analysis tools used to evaluate market reactions. These instruments supported systematic data processing and provided empirical evidence regarding the response of LQ45 stocks to the announcement of Trump's 2025 reciprocal tariff policy.

Data analysis was conducted through a sequential process. First, realized returns were calculated for each sample firm within the event window. Second, expected returns were estimated using the market-adjusted model. Third, abnormal returns were calculated as the difference between realized and expected returns. Finally, average abnormal returns were aggregated to capture the overall market response during the observation period.

A normality test was conducted to determine the appropriate statistical technique for hypothesis testing. The statistical analysis included a paired-sample t-test to examine differences in average abnormal returns before and after the announcement and a one-sample t-test to evaluate abnormal returns around the event date.

The interpretation of findings was conducted by relating empirical results to the Efficient Market Hypothesis, particularly the semi-strong form of market efficiency. Significant abnormal returns around the announcement period indicated that market participants incorporated information regarding Trump’s 2025 reciprocal tariff policy into stock prices.

RESULTS AND DISCUSSION

Results

Research Issuer Profile

The final sample comprises issuers that maintained continuous LQ45 membership from February 2022 through February 2025 and possess verified commercial linkages with the United States. These sample firms exhibit direct international trade engagement, spanning both export and import channels, rendering them particularly susceptible to shifts in cross-border trade regulation.

The existence of issuers with international trading activities makes these stocks more sensitive to global sentiment than domestic companies that only focus on the local market. Trump's 2025 reciprocal tariff policy is perceived by investors as a threat to the smooth flow of international trade and global supply chain stability. Consequently, investors exercise heightened prudence when allocating capital to equities with U.S. trade dependencies.

Table 1

Characteristics of Issuers of Research Samples

Sample Criteria	Quantity
LQ45 Issuers for the 2022–2025 Period	27
Issuers that meet the US trading criteria	5
Issuers that do not meet the criteria	22
Total research sample	5

The table above shows that only a fraction of the companies met the research criteria. Issuers that do not meet the criteria are excluded from the research sample so that the analysis results are more relevant to the research objectives. The selection process is carried out to ensure that the companies that are sampled have consistency in membership in the index, thereby reducing the potential for bias from companies that are only temporarily active or have just joined the index.

Descriptive Statistical Test Results

Descriptive statistics are computed for daily abnormal return data extracted from the sampled firms across the designated event window. The observed event period was seven trading days, counting from three days before (d−3) to three days after (d+3) the announcement of Trump's 2025 reciprocal tariff policy. Average abnormal returns are used as a key indicator in gauging the stock market's reaction to Trump's 2025 reciprocal rate policy announcement. Abnormal return is the difference between the actual return and the expected return obtained by investors during the observation period.

Table 2

Descriptive Statistical Test Results for Abnormal Returns During the 2025 Trump Reciprocal Tariff Announcement Event Period

Event Period	N	Minimum	Maximum	Average	Std. Deviation
D-3	5	-0,01885	0,01905	-0,00238	0,01519
D-2	5	-0,03201	-0,00445	-0,02188	0,01119
D-1	5	-0,05298	-0,01671	-0,03245	0,01575
D0	5	-0,04015	0,02039	-0,00162	0,02520
D+1	5	-0,05287	0,04418	0,00276	0,03633
D+2	5	-0,02706	0,05118	0,00282	0,03512
D+3	5	-0,03690	0,05617	0,02015	0,04185

Table 2 shows that there was a fairly high fluctuation in the value of the average abnormal return two days before the official announcement was made. On d0 and after the abnormal return is seen to begin to undergo readjustment. This suggests that the market has anticipated the information before the official announcement is made.

Normality Test Results

Normality testing verifies whether the distributional properties of the analytical dataset satisfy the prerequisites for parametric inference. Confirming normal distribution validates the subsequent deployment of parametric techniques, specifically t-tests, to assess the statistical significance of observed abnormal returns.

This study adopts the Shapiro-Wilk normality test, a procedure recommended when sample sizes fall below 50 (Gabrillia Paulin, 2025). Ahadi & Zain (2023) demonstrated that Shapiro-Wilk outperforms alternative normality tests in small-sample contexts. The normality assessment results for abnormal returns are presented table 3.

Table 3

Shapiro-Wilk Test Results for Abnormal Returns During the 2025 Trump Reciprocal Tariff Announcement Event Period

Event Period	Quantity	Sig.	Criteria	Description
D-3	5	0,72699	0,05	Normally Distributed
D-2	5	0,38032	0,05	Normally Distributed
D-1	5	0,63356	0,05	Normally Distributed
D0	5	0,38198	0,05	Normally Distributed
D+1	5	0,90841	0,05	Normally Distributed
D+2	5	0,22699	0,05	Normally Distributed
D+3	5	0,18733	0,05	Normally Distributed
AAR BEFORE	5	0,99747	0,05	Normally Distributed
AAR AFTER	5	0,78394	0,05	Normally Distributed

Table 3. shows that all values of normality significance of data have values above the significance level of >0.05. The results of the normality test which found that all data were distributed normally hinted that the testing would be carried out with the parametric statistical test t-Test.

Statistical Test Results

The data was tested using a type of parametric statistical test, namely the paired sample t-test and the one sample t-test, to evaluate the market's reaction to the event being studied. The paired sample t-test is performed to test whether there is a significant difference between the AAR values in the period before the event and the period after the event. The results of the paired sample t-test that have been carried out are as follows:

Table 4

Paired Samples t-Test Results During the 2025 Trump Reciprocal Tariff Announcement Event Period

	Average	Sig	Description
AAR BEFORE	-0,01890	0,01129	Significant
AAR AFTER	0,00858		

Table 4 presents the paired comparison of AAR across the pre-announcement period (d-3 through d-1) and the post-announcement period (d+1 through d+3). The paired-sample t-test confirms a statistically significant AAR differential between these two windows. The AAR value before the event was recorded at -0.01890 and the AAR value after the event was 0.00858, with a significance of 0.01129 < 0.05. The one sample t-test was used to assess whether there was a significant difference in daily average abnormal return (AAR) values during the study event period. The results of the one sample t-test that have been carried out are in Table 5.

Table 5
One-Sample t-Test Results During the 2025 Trump Reciprocal Tariff Announcement Event Period

Event Period	t	Sig	Description
D-3	-0,34982	0,74412	Not Significant
D-2	-4,37317	0,01194	Significant
D-1	-4,60711	0,00998	Significant
D0	-0,14356	0,89279	Not Significant
D+1	0,16965	0,87352	Not Significant
D+2	0,17968	0,86614	Not Significant
D+3	1,07657	0,34227	Description

Table 5. shows the test results using the one sample t-test with a significance level of 0.05. Based on the results of the one sample t-test on the AAR value during the event period, there was a significant average abnormal return test value on d-2 and d-1. The test results show that there was a market reaction around the event of Trump's 2025 reciprocal tariff policy announcement.

The market reacted negatively to the event of Trump's 2025 reciprocal tariff policy announcement on d-2 which was shown by a t-value calculated -4.37313 with a significance level of 0.01194 < 0.05. The market also saw a reaction on d-1 with a t-value of -4.60711 with a significance of 0.00988 < 0.05.

Discussion

Market Reaction to Trump's 2025 Reciprocal Tariff Policy Announcement

Testing the market's reaction to Trump's 2025 reciprocal tariff policy announcement was conducted using the paired sample t-test and the one sample t-test. An average movement of a significant abnormal return value can indicate that the market is reacting, while an insignificant abnormal return indicates that the market is not reacting.

The test conducted using the paired sample t-test in table 4. shows that there is a significant difference in the AAR value in the period before (d-3 to d-1) versus the period after (d+1 to d+3) of the Trump 2025 reciprocal tariff policy announcement with a significance value of 0.01129 < 0.05. This difference indicates that the market has changed after the event, there has been a change in the pattern of market reaction strong enough to state that the event of Trump's 2025 reciprocal tariff policy announcement has strong enough information content to move the stock market. The results of this study found that there was a significant difference in average abnormal returns before and after the announcement of Trump's 2025 reciprocal tariff policy.

The results of the one sample t-test show that there was a market reaction around the day of the announcement of Trump's 2025 reciprocal tariff policy. Table 5. showed that there was a significant difference in the AAR value on d-2 (t count -4.37317; significance 0.01194 < 0.05) and d-1 (t calculated -4.60711; significance 0.00988 < 0.05). The emergence of significant abnormal returns on d-2 and d-1 reveals that market participants began processing tariff-related information before the official policy disclosure date.

These conditions can be interpreted through two complementary theoretical mechanisms. First, the information leakage hypothesis suggests that some market participants may have obtained advance knowledge of the tariff policy through unofficial channels, political insider networks, or pre-announcement media speculation, enabling them to adjust portfolios before the official date (Fidiana, 2020). Second, the rational anticipation hypothesis posits that sophisticated investors systematically process publicly available signals (such as Trump's prior trade rhetoric, executive order drafts reported in international media, and geopolitical tensions) to form probabilistic expectations about the policy content and timing.

The concentration of significant abnormal returns exclusively on d−2 and d−1, rather than across the entire pre-event window, supports a combination of both mechanisms: gradual information diffusion culminating in accelerated price adjustment as the announcement date approached. These conditions can be interpreted as the presence of information leaks or rumors, pre-formed market expectations, or investors' response to early signs and global dynamics that precede an official announcement. The market does not wait until the announcement date to make a price adjustment.

The direction of the market's reaction indicated by the negative t-count values on d-2 (-4.37317) and d-1 (-4.60711) confirms that information regarding Trump's reciprocal tariff policy is categorized as bad news by investors. Negative abnormal returns of statistical significance denote that investors' realized gains fell short of market-based return expectations. This condition reflects market participants' concerns about the trade impact of Trump's 2025 reciprocal tariff policy, which is predicted to increase tariff barriers, disrupt global supply chains, and ultimately suppress issuers' profitability. The policy is perceived as a threat to export performance and economic stability, thereby driving selling pressure on stocks exposed to international trade risks.

The event study framework adopted herein serves to evaluate whether the market exhibits semi-strong efficiency characteristics as conceptualized within EMH theory. The market is efficient in a semi-powerful form if information is absorbed or responded to quickly by the market (within one-to-two-time spots or days around the announcement) (Tandelilin, 2010). The significance of abnormal returns is found on d-2 and d-1 of the announcement of Trump's 2025 reciprocal tariff policy. The market is hereby said to have reached a semi-strong market form as indicated by the market's ability to absorb and respond quickly to information related to the events of Trump's 2025 reciprocal tariff policy announcement. Data in Table 5. indicates that the price of securities adjusts rapidly (two spots time or days) to all published information, including public expectations and speculation regarding Trump's 2025 reciprocal tariff policy.

The results of this study were then analyzed through the perspective of informationally efficient market and decisionally efficient market. Tandelilin (2010) Explains; (1) An information-efficient market reacts immediately and simultaneously, abnormal (significant) returns occur only in one- or two-time spots around the announcement of events; (2) Market efficiency in the decisional sense is assessed by examining whether the directional response, positive or negative, accurately corresponds to the informational substance of the event.

Significant AAR values on d-2 and d-1 indicate that the market is said to be information-efficient. Informational efficiency is reflected in response velocity, and this study's finding of significant AAR values across two consecutive pre-announcement sessions attests to the market's capacity for rapid information processing. The reaction that emerged before the day of the event can be seen as proof that the market can anticipate and integrate public information relatively quickly. The price adjustment process does not occur exclusively at the time the information is announced, but has taken place beforehand.

The statistically significant pre-event market reaction suggests that equity prices incorporated accumulating expectations, speculative assessments, and evolving information flows rather than responding exclusively to the formal announcement itself. The date of the event does not serve as the only reaction point, but rather as part of a series of price-forming processes that have been initiated beforehand. This phenomenon can indicate the occurrence of anticipatory behavior from investors, or even the potential for information leakage that causes some market participants to adjust their portfolios before the announcement is officially published.

Based on the definition that market efficiency in decisions is determined by the direction of positive or negative market response and the accuracy of the market's reaction to information, the results of this study show that the capital market studied is not fully efficient in terms of decisions. The market inefficiency in this study is emphasized by the reversal of the direction of the AAR value in the period before and after the Trump 2025 reciprocal tariff policy announcement.

Comparing AAR trajectories across the pre- and post-event intervals reveals an upward transition, with earlier negative AAR values giving way to positive figures following the announcement. On d-1 (-0.03245) the AAR value is seen to be at its lowest point. The value of AAR was then seen turning positive in the period after the announcement of Trump's 2025 reciprocal tariff policy. This pattern is evidence of wrong decisions or mispricing in the previous period. The movements that occur indicate that investors tend to overreact. A positive AAR value reflects the collective awareness of investors to buy back after realizing that the initial negative reaction was too excessive and did not fully reflect the substance of the policy announced.

Average Abnormal Return as an Indicator of Market Reaction

The average abnormal return in this study is used as the main indicator to measure the market's reaction to Trump's 2025 reciprocal tariff policy announcement. The results showed that a significant abnormal negative return occurred two days before the official announcement was made. This condition shows that investors respond to information related to tariff policy quickly and aggressively. The existence of new information that has economic content causes changes in stock prices outside normal conditions. The greater the abnormal return value that appears, the stronger the information content of an event.

The emergence of abnormal negative returns on d-2 and d-1 shows that investors consider Trump's 2025 reciprocal tariff policy as bad news for the Indonesian capital market. This adverse market reaction aligns with Lai (2019) observation that the U.S.–China trade conflict amplified global equity volatility and undermined worldwide economic expansion. A similar condition was also found by Chengying et al. (2022) who stated that trade protectionism policies have a significant impact on stock market stability. The results of this study reinforce previous findings that the United States' international trade policy has a major influence on global investor sentiment.

A significant negative return before the official announcement date indicates the possibility of information leakage or the formation of market expectations before the information is officially published. Investors tend to respond to emerging early signals through international media, political statements, and market rumors. Indonesia's capital market demonstrates characteristics consistent with responsiveness to publicly disseminated information and global economic expectations. Consistent with EMH principles, the LQ45 subsample of internationally active issuers examined in this study exhibits semi-strong efficiency, as equity prices adjust with notable speed to publicly available intelligence.

The Efficiency of the Indonesian Capital Market in Responding to Global Information

This research furnishes empirical support for the proposition that Indonesia's capital market operates with semi-strong informational efficiency. The market absorbed and responded to information related to Trump's 2025 reciprocal tariff policy announcement in a relatively short time. The abnormal significance of returns that appeared before the day of the event showed that the market had adjusted the stock price rapidly to evolving information expectations. This finding accords with Fama (1970) EMH framework, under which market efficiency obtains when equity prices promptly and accurately incorporate all accessible information.

The efficiency patterns documented here further indicate that Indonesian equity market participants actively leverage globally sourced economic intelligence. Investors not only pay attention to the fundamental factors of the company, but also consider international economic conditions in determining investment strategies. Changes in U.S. trade policy are perceived as important information that can affect the performance of domestic companies, especially those that have trade relations with the country. Therefore, the market responds to this information through rapid stock price adjustments.

However, the market reaction that emerged before the official announcement also shows that Indonesia's capital market still faces challenges related to information asymmetry and potential information leaks. Certain investors may gain access to information faster than other investors so that they are able to make portfolio adjustments before an official announcement is made. Such dynamics risk compromising informational equity within the market and may generate asymmetric profit opportunities across investor classes. Therefore, capital market regulators need to increase supervision of the dissemination of information and trading activities so that market efficiency can run more optimally.

Research Urgency

Theoretically, this study contributes to three things, namely related to market reactions, event study methodology, and Efficient Market Hypothesis (EMH) testing. The finding of significant abnormal returns before the policy announcement date indicates that external events have information that can influence investor expectations and behavior. The resulting negative reaction indicates that the market is assessing the policy of linked reciprocal tariffs as information that increases economic and trade risks. The results of this study strengthen the argument that Indonesia's capital market is sensitive to global policy shocks in the price formation process.

This study is additional empirical evidence for the application of event studies in detecting the speed and direction of price adjustments. The findings of significance in the period before the event enriched the study of events regarding the possibility of anticipation of rumors/information leaks that are often a concern in event studies.

The results of this study also contribute to the testing of the shape of a semi-strong market. This study indicates that the capital market studied is said to be information efficient in a semi-robust form, and at the same time enriches the empirical evidence regarding the dynamics of market efficiency in developing countries.

This research can be an additional insight for investors into how external events, especially political issues, impact the capital market. The outcomes of this investigation are intended to inform investor decision-making frameworks and strategy formulation should comparable geopolitical trade events materialize in the future.

Comparison of Research Results with Previous Research

The present findings converge with the conclusions of Ariyani (2017) and Gusti et al. (2017) all of whom characterize Indonesia's capital market as exhibiting semi-strong efficiency tendencies. Collectively, these studies demonstrate that Indonesian equities undergo rapid price adjustments in response to newly publicized information. The findings of this study strengthen the empirical evidence that international economic and political information has a strong enough information content to influence investor behavior in the Indonesian capital market.

The current study also reinforces findings reported by Muh Reski et al. (2021) who documented that publicly disseminated global political and economic events can precipitate measurable market reactions. Trump's 2025 reciprocal tariff policy announcement has been proven to cause significant abnormal returns, indicating the content of information that affects the market. This evidence affirms that Indonesia's equity market demonstrates meaningful sensitivity to globally significant trade-related developments.

The main novelty in this study lies in the focus of the study on Trump's 2025 reciprocal tariff policy which is the latest economic-political issue and has not been widely researched in the context of the Indonesian capital market. Antecedent studies have predominantly addressed the U.S.–China trade conflict or the generic influence of political events on equity markets. This study specifically examines the stock market reaction of LQ45 issuers of United States trading partners to the announcement of Trump's 2025 reciprocal tariff policy. The findings regarding significant abnormal returns before the official announcement date are also an important contribution in enriching the event study study related to market expectations and the possibility of information leakage before the event is officially announced.

CONCLUSION

This study aims to examine and analyze the stock market reaction of LQ45 issuers of United States trading partners to the announcement of Trump's 2025 reciprocal tariff policy through an event study approach with an average abnormal return indicator. Based on the results of the research that has been conducted, it was found that the Indonesian capital market showed a significant reaction to the announcement of Trump's 2025 reciprocal tariff policy. The evidence indicates that the market operates with semi-strong informational efficiency, as publicly available information is rapidly assimilated and reflected in equity price movements. There was a significant difference in average abnormal returns before and after the announcement of Trump's 2025 reciprocal tariff policy. This significance indicates that the announcement of Trump's 2025 reciprocal tariff policy has strong enough information content to cause a significant market reaction in the Indonesian capital market. This market response manifested as significant negative abnormal returns emerging before the formal announcement date, concentrated on d-2 and d-1. Significant negative reactions indicate that the event of Trump's 2025 reverse tariff policy announcement is perceived as bad information by market participants, driving selling pressuref resulting in a lower actual return than expected.

These findings show that information related to Trump's 2025 reciprocal tariff policy has been responded to early by investors through the formation of market expectations, rumors, and global information dynamics that develop before the official announcement is made.

The main contribution of this research lies in strengthening the empirical evidence on the influence of global economic-political policies on the Indonesian capital market, especially in the context of the announcement of Trump's 2025 reciprocal tariff policy which has not been widely studied in previous research. In addition, this study enriches the study of event studies related to the possibility of market reactions before the official date of an event is announced. Nonetheless, this study is bounded by its relatively brief observation window and its reliance on a single market reaction metric, average abnormal return.

Follow-up research can be done by extending the period of observational events, or using different types of expected returns. Comparative studies between certain industry sectors can also be conducted to identify whether there are specific sectors that may be more sensitive to the events of Trump's 2025 reciprocal tariff policy announcement. For market practitioners, these findings underscore the imperative of heightened vigilance toward external policy risks and the adoption of robust portfolio hedging strategies, particularly for holdings with international trade exposure. Investors need to consider that the market can react even before an official announcement is made, so monitoring global information and geopolitical dynamics becomes an important part of the investment decision-making process.

ACKNOWLEDGEMENT

The authors extend heartfelt thanks to every individual and institution whose involvement facilitated the completion of this work. Above all, profound gratitude is directed to Allah SWT for the blessings, guidance, and perseverance bestowed throughout the research journey and the broader academic endeavor. Deep appreciation goes to the supervising advisors, whose expert direction, thoughtful critique, and sustained encouragement were instrumental in shaping this study. The authors are equally grateful to academic peers and colleagues for their intellectual contributions and collaborative spirit during the research process. Thanks are also due to all those who supported data gathering and administrative coordination, alongside family members whose unwavering motivation proved indispensable. May every act of generosity and support extended during this research receive abundant reward.

AUTHOR CONTRIBUTION STATEMEN

Both authors engaged collaboratively across every phase of this research endeavor. The first author assumed primary responsibility for study conceptualization, framework design, data acquisition and analysis, results interpretation, and initial manuscript preparation. The second author provided supervisory oversight, methodological counsel, analytical quality assurance, and manuscript refinement to uphold academic rigor and coherence. Each author reviewed, revised, and endorsed the final manuscript prior to submission and accepts full responsibility for the integrity and accuracy of the reported findings.

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