

MARKET REACTION TO THE MSCI ANNOUNCEMENT: AN EVENT STUDY OF SHARIA STOCKS IN THE JAKARTA ISLAMIC INDEX

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Abstract

The announcement of the MSCI (Morgan Stanley Capital International) Index Review on May 12, 2026, which temporarily suspended the rebalancing of Indonesian equities, represented a major information event for the Indonesian capital market and raised questions about investor responses. This study examines market reactions by analyzing Abnormal Return (AR) and Trading Volume Activity (TVA) of 30 stocks included in the Jakarta Islamic Index (JII). The market-adjusted model was employed to estimate abnormal returns, while the t-test and paired sample t-test were used for statistical analysis. The results show that Average Abnormal Return (AAR) did not change significantly throughout the event window, including the periods before, on, and after the announcement. In contrast, trading activity was statistically significant on Day -9, Day -8, Day -7, Day -6, and Day -4, although no significant changes were observed on the remaining trading days. The paired sample t-test further confirms that there was no significant difference in abnormal returns before and after the MSCI Index Review announcement, whereas Trading Volume Activity differed significantly. These findings indicate that the MSCI Index Review announcement influenced trading activity rather than stock returns. Therefore, investors should not rely solely on the announcement to obtain abnormal returns, while regulators and listed companies should pay greater attention to its impact on market liquidity and trading activity.

Keyword: Market Reaction, Abnormal Return, Trading Volume

1. Introduction

The rapid advancement of globalization, information technology, and capital market liberalization has significantly increased the integration of global financial markets, enabling investment activities to transcend national boundaries. In this environment, capital markets have become an integral part of an interconnected global financial system in which publicly disclosed information can influence investor perceptions, international capital flows, and the pricing of securities across countries (Fama, 1970; MSCI, 2026). As cross-border investment continues to expand, institutional investors including pension funds, insurance companies, sovereign wealth funds, hedge funds, and global asset managers increasingly rely on international stock market indices as benchmarks for evaluating portfolio performance and determining strategic asset allocation. Furthermore, the rapid growth of passive investment vehicles, such as Exchange Traded Funds (ETFs) and index mutual funds, has strengthened the role of global equity indices as key references for international capital allocation. Because passive funds replicate the composition of their benchmark indices, any change in index constituents may trigger portfolio rebalancing, thereby affecting stock demand, market liquidity, and share prices (Ben-David et al., 2017; Lettau & Madhavan, 2018; Wurgler, 2010).

Among the major global equity indices, the Morgan Stanley Capital International (MSCI) Index is one of the most influential benchmarks used by international investors to guide investment decisions across developed, emerging, and frontier markets. Consequently, announcements of MSCI index rebalancing are widely regarded as information-bearing events that may induce substantial portfolio adjustments by institutional investors. Such adjustments can generate significant market reactions, which are reflected in changes in stock prices and trading activity as investors rebalance their portfolios to align with the updated index composition (MSCI, 2026; Widyatmoko & Setiawan, 2023).

Morgan Stanley Capital International (MSCI) is one of the world's leading global equity index providers and serves as a primary benchmark for institutional investors in allocating international investment portfolios. To ensure that its indices accurately reflect prevailing market conditions, MSCI conducts periodic index reviews and rebalancing in February, May, August, and November by adding or removing constituent stocks based on market capitalization, liquidity, and foreign investor accessibility criteria (MSCI, 2026). Announcements of MSCI rebalancing results constitute important information events because changes in a company's index membership may influence investors' perceptions of the firm's quality and future prospects,

thereby affecting their investment decisions (Widyatmoko & Setiawan, 2023). Moreover, many index mutual funds and Exchange Traded Funds (ETFs) adopt passive investment strategies by replicating the composition of MSCI indices. Consequently, any change in index constituents is followed by portfolio adjustments through the purchase of newly included stocks and the sale of excluded stocks, potentially affecting stock demand, market liquidity, stock prices, abnormal returns, and trading activity in the capital market (Ben-David et al., 2017; Lettau & Madhavan, 2018; MSCI, 2026).

Indonesia is classified as an emerging market in the MSCI index and has therefore become an important investment destination for global institutional investors who use MSCI indices as benchmarks for portfolio management. Consequently, changes in MSCI policies or rebalancing outcomes have the potential to influence the dynamics of the Indonesian capital market through portfolio rebalancing by foreign institutional investors, including asset management companies, pension funds, Exchange Traded Funds (ETFs), and index mutual funds. Such portfolio adjustments may increase buying or selling pressure on specific stocks, thereby affecting stock prices, abnormal returns, and trading activity. This suggests that MSCI announcements contain significant information content for market participants in Indonesia (MSCI, 2026; Widyatmoko & Setiawan, 2023; Darmawan et al., 2026).

The impact of MSCI announcements is not limited to conventional stocks but may also extend to Sharia-compliant equities included in the Jakarta Islamic Index (JII). The JII is one of Indonesia's leading Islamic stock indices, comprising highly liquid and large-capitalization Sharia-compliant stocks, and serves as an important benchmark for Islamic equity investment in the Indonesian capital market. Changes in investor perceptions following MSCI announcements may encourage portfolio rebalancing, which is reflected in changes in abnormal returns and trading volume activity (Widyatmoko & Setiawan, 2023). However, the distinctive characteristics of Sharia-compliant stocks, which emphasize compliance with Islamic principles and are generally dominated by investors with relatively rational and long-term investment orientations, may result in market reaction patterns that differ from those of conventional stocks (Ansari et al., 2022; Firmansyah & Andanawari, 2020). Therefore, examining how MSCI announcements influence market reactions to stocks included in the Jakarta Islamic Index is essential for understanding the behaviour of Indonesia's Islamic capital market.

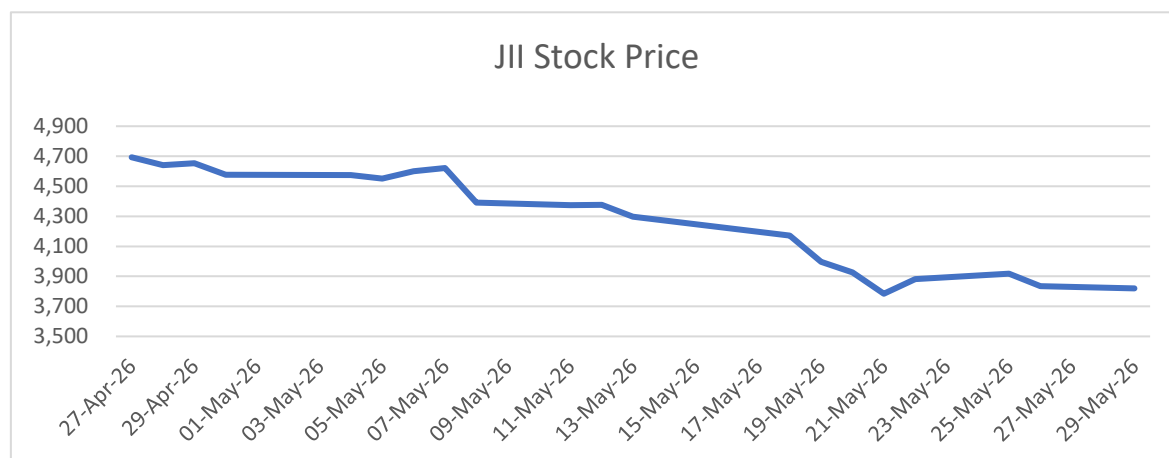


Figure 1. Jakarta Islamic Index (JII) Stock Price Movement During the Study Period

Figure 1 illustrates the movement of the Jakarta Islamic Index (JII) during the event window, comprising nine trading days before the MSCI rebalancing announcement (Day -9 to Day -1), the announcement day (Day 0), and nine trading days after the announcement (Day +1 to Day +9). Overall, the JII exhibited a downward trend throughout the observation period. Prior to the announcement, the index remained relatively stable within the range of 4,500–4,700 points, although it began to weaken as the announcement date approached. Following the MSCI announcement, selling pressure intensified, causing the index to decline gradually and reach its lowest level of approximately 3,800 points on Day +5. Thereafter, the index experienced only a modest recovery and remained relatively stable until the end of the event window. This pattern suggests that the market responded to the information associated with both the MSCI rebalancing announcement and its subsequent implementation, as reflected in changes in the JII index level during the observation period. These descriptive findings provide preliminary evidence of market reaction, which is subsequently examined through statistical tests using abnormal return and Trading Volume Activity (TVA) as proxies for market response.

Previous studies generally suggest that changes in MSCI index composition constitute information-bearing events capable of influencing market reactions. (Chakrabarti et al., 2000) demonstrated that stocks added to the MSCI index experienced significant increases in both stock prices and trading volume as a result of portfolio rebalancing by global institutional investors. Similar findings were reported by (Wilkins and Wimschulte, 2005), who showed that changes in index composition affect abnormal returns and trading activity

around both the announcement and implementation dates of index revisions. Collectively, these studies indicate that MSCI index rebalancing represents an important event that can be effectively analysed using the event study methodology because it influences investor behaviour and capital market dynamics.

Despite this evidence, empirical research on the impact of MSCI rebalancing announcements in the Indonesian capital market remains limited. (Widyatmoko and Setiawan, 2023) documented significant market reactions to MSCI rebalancing events across ASEAN-5 countries, as reflected in changes in abnormal returns and trading volume activity. However, their study employed an aggregate sample of listed stocks and did not specifically examine Sharia-compliant stocks included in the Jakarta Islamic Index (JII). Given that Sharia-compliant equities possess distinctive characteristics due to Islamic screening criteria, differences in investor composition, and potentially different responses to market information compared with conventional stocks (Hartono, 2022), further investigation is warranted to understand how MSCI announcements affect the Islamic equity market in Indonesia.

This study contributes to the literature by examining the market reaction to the May 2026 MSCI Index Review announcement for Sharia-compliant stocks included in the Jakarta Islamic Index (JII), a topic that has received limited attention in previous studies. Unlike prior research, which has primarily focused on conventional stocks or aggregate market samples, this study specifically investigates the response of the Indonesian Islamic capital market using an event study approach. Market reaction is measured through Abnormal Return (AR) and Trading Volume Activity (TVA) over an event window spanning Day -9 to Day +9. The study aims to determine whether the MSCI Index Review announcement conveys information that is incorporated into investor decision-making and subsequently reflected in changes in abnormal returns and trading activity. The findings are expected to provide empirical evidence regarding information efficiency in the Indonesian Islamic capital market while enriching the literature on the impact of global stock index announcements on investor behaviour in Sharia-compliant equities included in the Jakarta Islamic Index.

2. Literature Review

2.1. Signalling Theory

Signalling Theory posits that information disclosed to the market serves as a signal that enables investors to reduce information asymmetry when making investment decisions (Spence, 1973). Information content is interpreted by investors as either good news or bad news, thereby influencing their expectations regarding a firm's future prospects. The credibility of the information source plays a crucial role in determining the effectiveness of the signal, as investors tend to respond more strongly to information that is perceived as reliable and economically meaningful. In the context of capital markets, these responses are reflected in changes in stock prices and trading activity following the public disclosure of new information (Connelly et al., 2025). Accordingly, Signalling Theory provides a theoretical foundation for explaining how investors react to publicly available information that has the potential to influence firm value and market behaviour.

2.2. Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) posits that security prices fully reflect all available information, implying that investors cannot consistently earn abnormal returns solely by exploiting publicly available information (Fama, 1970; Fama, 1991). This study adopts the semi-strong form of market efficiency, which asserts that stock prices adjust rapidly and unbiasedly to the release of new public information containing economic value. Consequently, when an announcement conveys value-relevant information, the market is expected to respond promptly, with the effects being reflected in changes in stock prices and trading activity over a relatively short period. This theoretical framework continues to serve as the principal foundation for event study research, which evaluates how efficiently capital markets incorporate new information into security prices (Urquhart & McGroarty, 2022).

2.3. Event Study

An event study is a widely used empirical method for examining market reactions to a specific event by analysing changes in stock prices and trading activity surrounding the event date within a defined event window (MacKinlay, 1997; Binder, 1998). This approach is based on the premise that when an event conveys economically meaningful information, investors revise their expectations and adjust their investment decisions accordingly, leading to observable changes in stock prices and trading volume. Consequently, the event study methodology has been extensively employed to assess the impact of various information events in capital markets, including corporate actions, government policy announcements, and changes in stock index composition.

2.4. Market Reaction

Market reaction refers to investors' responses to newly released information, which are reflected in changes in stock prices, trading volume, and market liquidity. According to Signalling Theory, market reactions occur when investors interpret new information as either a positive or negative signal, whereas the Efficient Market Hypothesis (EMH) suggests that such responses are incorporated rapidly into security prices when the market operates efficiently (Spence, 1973; Fama, 1970). In capital market research, market reaction is commonly assessed using two primary indicators: Abnormal Return (AR) and Trading Volume Activity (TVA). These

measures capture both the price adjustment resulting from new information and the intensity of investors' trading behaviour following a public announcement, making them the most widely used proxies for evaluating market reactions in event study research (MacKinlay, 1997).

2.5. Abnormal Return

Abnormal return (AR) is defined as the difference between a stock's actual return and its expected return, representing gains or losses beyond normal market expectations resulting from the arrival of new information (MacKinlay, 1997). From the perspective of the Efficient Market Hypothesis (EMH), a statistically significant abnormal return indicates that the market is adjusting security prices in response to value-relevant information. In contrast, Signalling Theory suggests that the direction of abnormal returns reflects investors' interpretation of an announcement as either good news or bad news, thereby influencing their investment decisions (Fama, 1970; Fama, 1991; Spence, 1973). Consequently, abnormal return serves as one of the primary indicators in event study research for assessing whether a particular announcement conveys information that affects investor behaviour and is incorporated into stock prices.

2.6. Trading Volume Activity

Trading Volume Activity (TVA) is an indicator used to measure the intensity of stock trading by comparing the number of shares traded with the total number of shares outstanding (Foster, 1986). Unlike abnormal return, which captures changes in stock value, TVA reflects changes in investors' trading behaviour following the release of new information (Beaver, 1968). From the perspectives of Signalling Theory and the Efficient Market Hypothesis (EMH), changes in trading volume indicate that investors are adjusting their portfolios in response to publicly disclosed information. Consequently, TVA is frequently employed alongside abnormal return (AR) in event study research to provide a more comprehensive assessment of market reaction, as it captures not only price adjustments but also the intensity of investors' trading activities following an information event.

3. Conceptual Framework

The MSCI Index Review announcement is regarded as an information-bearing event because it provides information regarding changes in index composition that may influence investors' perceptions of a stock's future prospects, liquidity, and investment attractiveness. According to Signalling Theory, such information functions as a signal that investors interpret as either positive or negative, thereby influencing their investment decisions to buy, sell, or hold stocks (Spence, 1973). These changes in investors' expectations and decisions subsequently give rise to market reactions.

Furthermore, the Efficient Market Hypothesis (EMH), particularly its semi-strong form, argues that relevant public information is rapidly incorporated into stock prices and trading activity (Fama, 1970; Fama, 1991). Accordingly, this study employs the event study methodology to examine whether the MSCI Index Review announcement generates a market reaction, as reflected in changes in abnormal return (AR) and trading volume activity (TVA) during the event window (MacKinlay, 1997; Binder, 1998). Changes in these two indicators indicate that investors adjust their investment decisions after receiving new information.

The conceptual framework of this study proposes that the MSCI Index Review announcement, as a source of public information, influences investors' behaviour, which is subsequently reflected in changes in abnormal return and trading volume activity before and after the announcement. This proposition is consistent with previous studies demonstrating that changes in MSCI index composition trigger significant market reactions through portfolio rebalancing by institutional investors, resulting in observable changes in stock returns and trading activity (Chakrabarti et al., 2005; Widyatmoko & Setiawan, 2023).

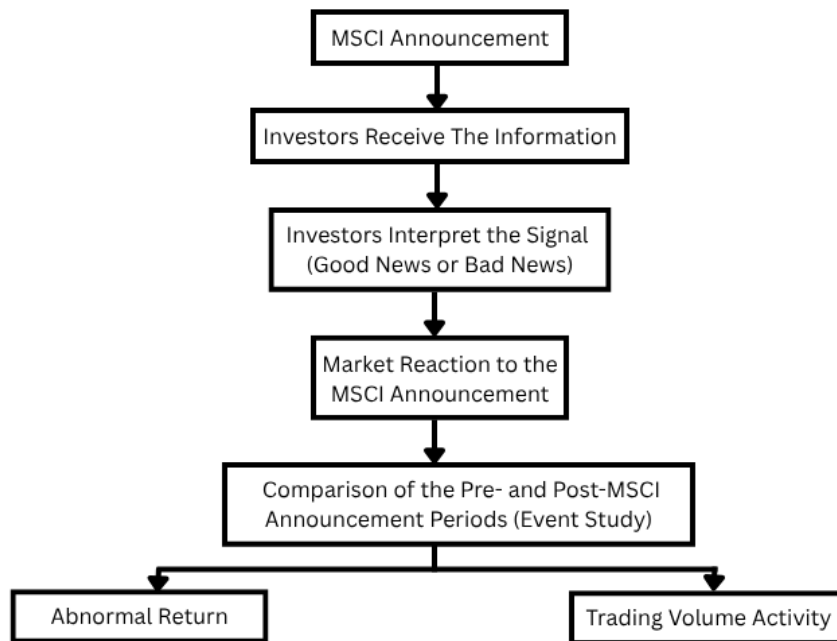


Figure 2. Conceptual Framework

Research Hypothesis

1. Hypothesis 1

H0₁: There is no significant difference in abnormal return before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

Ha₁: There is a significant difference in abnormal return before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

2. Hypothesis 2

H0₂: There is no significant difference in trading volume activity (TVA) before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

Ha₂: There is a significant difference in trading volume activity (TVA) before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

4. Research Method

This study employs a quantitative research approach using the event study methodology to examine market reactions to the MSCI Global Standard Index Review announcement, which was released on 12 May 2026 and became effective after the market close on 29 May 2026. The study population consists of all 30 constituent stocks of the Jakarta Islamic Index (JII). A census (saturated sampling) technique was adopted, whereby all population members were included as the research sample. The event window spans 19 trading days (Day -9 to Day +9), comprising nine trading days before the announcement, the announcement day (Day 0), and nine trading days after the announcement. This observation period was selected to capture potential information leakage prior to the announcement, the immediate market response on the announcement date, and investors' portfolio adjustments leading up to the implementation of the revised MSCI index composition.

Market reaction is measured using abnormal return (AR) and trading volume activity (TVA). Abnormal returns are estimated using the market-adjusted model, while TVA is employed to capture changes in trading intensity. Together, these measures provide a comprehensive assessment of changes in stock value and investors' trading behaviour following the announcement.

Hypothesis testing is conducted using a one-sample t-test to examine the statistical significance of the abnormal return (AR) and trading volume activity (TVA) on each trading day within the event window. In addition, differences in abnormal return (AR) and trading volume activity (TVA) before and after the MSCI Index Review announcement are analysed using the paired-samples t-test. This methodological approach is widely employed in event study research because it enables researchers to evaluate the information content of a particular event and assess the extent to which public information is incorporated into market prices and trading activity.

5. Result

Table 1. t-values and Significance Levels of Average Abnormal Return and Average Trading Volume Activity During the Event Window

Day	Period	Average Abnormal Return			Average Trading Volume Activity		
		t-value	t-tabel (p-value)		t-value	t-tabel (p-value)	Keterangan
D-9	28-Apr-26	-1,0397	0,3071	Not Significant	2,2162	0,0347	Significant
D -8	29-Apr-26	-0,4834	0,6324	Not Significant	2,6903	0,0117	Significant
D -7	30-Apr-26	1,3805	0,1780	Not Significant	2,5891	0,0149	Significant
D -6	04-May-26	0,0621	0,9509	Not Significant	2,7392	0,0104	Significant
D -5	05-May-26	-0,6688	0,5089	Not Significant	1,8988	0,0676	Not Significant
D -4	06-May-26	1,8551	0,0738	Not Significant	2,1987	0,0360	Signifikan
D -3	07-May-26	-0,6326	0,5320	Not Significant	1,7248	0,0952	Not Significant
D -2	08-May-26	-1,9035	0,0669	Not Significant	1,7347	0,0934	Not Significant
D -1	11-May-26	0,3361	0,7392	Not Significant	1,3208	0,1969	Not Significant
D -0	12-May-26	1,9849	0,0567	Not Significant	1,2177	0,2332	Not Significant
D +1	13-May-26	0,1988	0,8438	Not Significant	1,3780	0,1787	Not Significant
D +2	18-May-26	-1,6827	0,1032	Not Significant	1,6818	0,1033	Not Significant
D +3	19-May-26	-1,5453	0,1331	Not Significant	1,2972	0,2048	Not Significant
D +4	20-May-26	-1,1501	0,2595	Not Significant	1,2796	0,2108	Not Significant
D +5	21-May-26	-1,5272	0,1375	Not Significant	1,1965	0,2412	Not Significant
D +6	22-May-26	1,4865	0,1479	Not Significant	1,2661	0,2156	Not Significant
D +7	25-May-26	-1,0089	0,3214	Not Significant	1,1480	0,2604	Not Significant
D +8	26-May-26	-0,4124	0,6831	Not Significant	1,1206	0,2717	Not Significant
D +9	29-May-26	0,5018	0,6196	Not Significant	1,1194	0,2722	Not Significant

The significance test results presented in Table 1 indicate that Average Abnormal Return (AAR) did not exhibit statistically significant changes throughout the entire event window, including the periods before, on, and after the MSCI Index Review announcement. All p-values exceeded the 5% significance level, including the announcement day (Day 0), where the p-value was 0.057. Consequently, no statistically significant abnormal returns were observed on any individual trading day within the event window. These findings suggest that the MSCI announcement did not generate abnormal returns that differed significantly from normal market conditions for stocks included in the Jakarta Islamic Index (JII).

In contrast, the results for Average Trading Volume Activity (ATVA) reveal a more pronounced market reaction during the pre-announcement period. Trading activity was found to be statistically significant on Day -9 ($p = 0.035$), Day -8 ($p = 0.012$), Day -7 ($p = 0.015$), Day -6 ($p = 0.010$), and Day -4 ($p = 0.036$). However, no significant differences were detected on the remaining trading days, including the announcement day (Day 0) and throughout the post-announcement period (Day +1 to Day +9). This pattern indicates that trading activity increased several days prior to the official announcement, suggesting the possibility of information leakage or that investors had already formed expectations regarding the MSCI rebalancing outcome. Following the announcement, trading activity gradually returned to normal levels, implying that the official release did not trigger additional trading beyond what had already been anticipated by market participants.

Table 2. Paired-Samples t-Test Results for Abnormal Return Before and After the MSCI Index Review Announcement

Hypoteses	Sig. Level (2-tailed)	α	Decision	Conclusion
H0 ₁ : There is no significant difference in abnormal re- turn before and after the MSCI Index Review an- nouncement in the Jakarta Is- lamic Index (JII).	0,65	0,05	H ₀ accepted	There is no significant difference in abnormal return before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

Based on the results of the paired-samples t-test presented in Table 2, the significance value (Sig. (2-tailed)) was 0.650, which exceeds the 5% significance level. These results indicate that there is no statistically significant difference in abnormal returns before and after the MSCI Index Review announcement. This finding suggests that the announcement did not induce statistically significant changes in the abnormal returns of stocks included in the Jakarta Islamic Index (JII) during the observation period.

The absence of a significant difference in abnormal returns implies that the information contained in the MSCI Index Review announcement may have already been anticipated by market participants through information leakage or market expectations before the official announcement. Alternatively, the announcement may not have conveyed sufficiently new, value-relevant information to trigger a significant adjustment in stock returns. From the perspective of the Efficient Market Hypothesis (EMH), this evidence suggests that the market had already incorporated the available information into stock prices prior to the announcement date, leaving little room for additional abnormal price adjustments once the announcement was officially released.

Tabel 3. Paired-Samples t-Test Results for Trading Volume Activity Before and After the MSCI Index Review Announcement

Hypoteses	Sig. Level (2-tailed)	α	Decision	Conclusion
H0 ₂ : There is no significant difference in trading volume activity (TVA) before and af- ter the MSCI Index Review announcement in the Jakarta Islamic Index (JII).	0,04	0,05	H ₀ rejected	There is significant difference in trading volume activity (TVA) before and after the MSCI Index Review announcement in the Jakarta Islamic Index (JII).

Based on the results of the paired-samples t-test presented in Table 3, the significance value (Sig. (2-tailed)) was 0.040, which is below the 5% significance level. These findings indicate a statistically significant difference in Trading Volume Activity (TVA) before and after the MSCI Index Review announcement. This result suggests that the announcement influenced the trading activity of stocks included in the Jakarta Islamic Index (JII). Although the announcement did not generate significant changes in abnormal returns, the information released to the market prompted investors to adjust their trading behaviour, resulting in higher trading activity following the announcement.

5. Discussion

The hypothesis testing results further reveal that there was no statistically significant difference in Abnormal Return (AR) between the pre- and post-announcement periods for JII constituent stocks. The significance value of 0.650 ($p > 0.05$) indicates that the 12 May 2026 MSCI Index Review announcement did not produce statistically significant changes in abnormal returns. Consequently, the hypothesis proposing a difference in abnormal returns before and after the announcement is not supported. Although the descriptive statistics indicate that the average abnormal return was lower after the announcement than before, the magnitude of the change was insufficient to reach statistical significance. These findings suggest that the information conveyed by the MSCI announcement did not materially affect the price formation process of Sharia-compliant stocks included in the JII.

This evidence is consistent with the Efficient Market Hypothesis (EMH) proposed by (Fama, 1970), particularly the semi-strong form, which posits that stock prices rapidly incorporate all publicly available information. The absence of significant abnormal returns suggests that information regarding the MSCI Index Review may have been anticipated by investors before the official announcement or had already been incorporated into stock prices during the pre-announcement period. Consequently, once the announcement was released, the market exhibited no excessive price adjustment or overreaction, resulting in the absence of statistically significant abnormal returns. These findings imply that the Indonesian Islamic equity market is relatively efficient in incorporating publicly available information related to major global index policies.

The findings can also be interpreted through the lens of Signalling Theory (Spence, 1973), which argues that information influences investment decisions only when investors perceive it as containing economically meaningful information. Although the MSCI announcement represents an important source of information for global institutional investors, not all stocks included in the Jakarta Islamic Index are constituents of MSCI indices or primary investment targets of passive index funds. Consequently, the signal conveyed by the MSCI announcement was not interpreted uniformly across all JII constituent stocks, leading to a relatively limited aggregate price response. In other words, the announcement did not sufficiently alter investors' expectations to generate statistically significant abnormal returns across the entire sample.

In contrast, Trading Volume Activity (ATVA) exhibited a statistically significant difference between the pre- and post-announcement periods, with a significance value of 0.039 ($p < 0.05$). Descriptive statistics further indicate that average trading activity increased following the announcement and reached its highest level on 29 May 2026, the effective date of the MSCI Index Review implementation. These findings suggest that, although stock prices did not experience significant abnormal adjustments, investors actively rebalanced their portfolios, resulting in increased trading activity. Accordingly, the MSCI announcement contained sufficient information to influence investors' trading behaviour, even though it was not strong enough to trigger significant stock price adjustments.

The increase in trading activity can be explained from the perspective of Market Microstructure Theory, which argues that new information is not always reflected immediately in stock prices but often first manifests through increased trading intensity as investors adjust their portfolios according to their expectations and preferences (O'Hara, 1995). In the context of the May 2026 MSCI Index Review, institutional investors particularly asset managers whose investment strategies are benchmarked against MSCI indices were likely to undertake portfolio rebalancing before the implementation date. These trading activities increased market liquidity and trading volume without necessarily generating significant price changes, as buying and selling pressures remained relatively balanced. This phenomenon also helps explain why the Indonesian Composite Index experienced downward pressure during the post-announcement period, while abnormal returns among JII constituent stocks remained statistically insignificant.

The findings of this study are consistent with (Beaver, 1968), who argued that the information content of an event may be reflected in changes in trading volume because investors often interpret newly released information differently. As investors adjust their portfolios in response to new information, trading activity tends to increase even when stock price changes remain statistically insignificant. The results are also in line with (Brown and Warner, 1985), who demonstrated that event studies do not always detect significant abnormal returns because financial markets may anticipate relevant information before its official announcement. Furthermore, previous studies on MSCI index rebalancing in ASEAN markets have shown that changes in index composition are more frequently associated with increases in trading activity resulting from institutional portfolio rebalancing than with permanent changes in stock prices.

Overall, the findings demonstrate that the May 2026 MSCI Index Review announcement generated different responses across the two market reaction indicators examined in this study. While the announcement did not produce statistically significant changes in abnormal returns, it led to a significant increase in trading volume activity among stocks included in the Jakarta Islamic Index. These results indicate that the Indonesian Islamic equity market responded to the MSCI announcement primarily through changes in investors' trading behaviour rather than through immediate stock price adjustments. Therefore, Trading Volume Activity (TVA)

appears to be a more sensitive indicator than Abnormal Return (AR) in capturing investors' responses to the MSCI Index Review announcement during the study period.

6. Conclusion and Discussion

This study aimed to examine the market reaction to the MSCI Index Review announcement for stocks included in the Jakarta Islamic Index (JII) by employing Abnormal Return (AR) and Trading Volume Activity (TVA) as proxies for market reaction. The empirical results indicate that the MSCI Index Review announcement did not generate a statistically significant difference in Abnormal Return before and after the announcement, as evidenced by a significance value of 0.650 ($p > 0.05$). This finding suggests that the information conveyed by the MSCI Index Review announcement did not generate abnormal gains for investors, implying that stock price movements during the observation period were not statistically different from normal market conditions. The absence of significant abnormal returns further indicates that information regarding the MSCI Index Review may have been anticipated by market participants prior to the official announcement or had already been incorporated into stock prices, thereby limiting any additional price adjustment following the announcement.

In contrast, the results reveal a statistically significant difference in Trading Volume Activity (TVA) before and after the MSCI Index Review announcement, with a significance value of 0.040 ($p < 0.05$). The increase in trading activity suggests that the announcement contained sufficient information to encourage investors to rebalance their portfolios, despite the absence of significant stock price adjustments. Therefore, the MSCI Index Review announcement exerted a greater influence on trading behaviour and market liquidity than on the generation of abnormal returns. These findings also demonstrate that Trading Volume Activity (TVA) is a more sensitive measure than Abnormal Return (AAR) in capturing investors' responses to the MSCI Index Review announcement for Sharia-compliant stocks included in the Jakarta Islamic Index.

The findings of this study provide several practical implications. For investors, the MSCI Index Review announcement should not be used as the sole basis for investment decisions aimed at earning abnormal returns, as the results indicate that the announcement did not produce statistically significant changes in stock returns. Nevertheless, investors should pay close attention to changes in trading activity surrounding the announcement period, as increased trading volume may signal portfolio rebalancing by institutional investors and provide valuable information regarding market liquidity.

For listed companies and capital market regulators, the findings suggest that although the MSCI Index Review announcement did not significantly affect abnormal returns, it did lead to a significant increase in trading activity. Accordingly, efforts to enhance information transparency, improve the quality of corporate disclosure, and strengthen market surveillance to minimize potential information leakage prior to major global index announcements should be continuously reinforced to promote a more efficient and equitable price discovery process.

For future research, several avenues deserve further investigation. Future studies may employ longer event windows, alternative models for estimating abnormal returns, including the Market Model and the Mean-Adjusted Model, may be used to assess the robustness of the findings, future research may incorporate additional market reaction indicators, such as Cumulative Abnormal Return (CAR), bid-ask spread, stock return volatility, and market liquidity.

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