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Abstract — This research aims to test the overreaction anomaly of winner portfolios and loser portfolios on capital market performance before and during the COVID-19 pandemic and test the influence of winner portfolios, loser portfolios and optimal portfolios on capital market performance as well as including ROE, DER, inflation, exchange rates and interest rates as control variables. The first stage of testing uses the event study method. The second stage of the model uses panel data regression. The data used were 26 LQ45 companies on the Indonesia Stock Exchange from September 2019 – August 2020. The results of this research found that in the first stage no overreaction anomaly was found. The second stage in the panel data regression is that the dependent variable has a positive effect on the winner portfolio, the loser portfolio has a negative effect and the optimal portfolio has no effect. ROE in the winner, loser and optimal models has a positive effect, DER has a positive effect in the winner group, while in the loser group there is no effect, in the optimal group DER has a negative effect. Inflation has a positive effect in the winner, loser and optimal groups. The exchange rate has no effect in the winner and loser groups, while in the optimal group the exchange rate has a negative effect. Interest rates have a positive effect on capital market performance. This research only examines events before and during the COVID-19 pandemic, for next research period can be extended and samples does not group companies into groups of large asset companies and small asset companies. This research provides an overview and is useful in decision making for investors and managers. This research model tries to complement financial ratios with several micro and macro variables that have an influence on capital market performance before and during the COVID-19 pandemic.

Keywords — DER, exchange rate, inflation, interest rates, loser portfolio, optimal portfolio, ROE, winner portfolio

I. INTRODUCTION

Coronavirus disease (COVID-19) hit the world and Indonesia in 2020. Cases of coronavirus disease (COVID-19) have increased rapidly in a very short time. Indonesia is the country with the fourth largest population in the world and has a high risk of infection in large numbers and the spread of the virus, especially as this virus is very contagious so it needs to be prevented from spreading in the wider community. World Health Organization (WHO) declared COVID-19 as a pandemic, so it is focused on faster and earlier detection to stop the number of infections and implement appropriate management to limit virus transmission. Uncontrolled transmission causes a large number of cases and burdens the system's health care capacity. As a result, the number of deaths will increase rapidly, as in several countries (Hamid, 2020).

World Health Organization (WHO) issued its first global warning regarding COVID-19 on January, 30 2020, as the number of confirmed cases surged worldwide, WHO declared it as pandemic on 11 March 2020. So far, the countries with the largest number of confirmed cases in the world include Republic of China, Italy, South Korea, France, Spain, Germany, Japan and the United States. The outbreak has shifted gradually from China to Europe and the United States. In March 2020, several researchers and media reported how this terrible disease would affect the economies of affected countries (He et al., 2020). The stock market as an important part of the economy is also greatly affected (Huo & Qiu, 2020), information regarding the impact of COVID-19 makes investors react which is reflected in changes in stock prices on the market. This research is supported by (So seen & Nugraha, 2020) which proves that the increase in COVID-19 cases will cause high volatility in the equity market. This pandemic has resulted in negative investor sentiment (Liu et al., 2020).
The first incident of COVID-19 in Indonesia was reported by 2 patients and occurred on March, 02 2020. On March, 31 2020 data shows that there were 1,528 confirmed cases of COVID-19 with 136 deaths. Indonesia is a country with a mortality rate of 8.9% which is also the highest COVID-19 mortality rate in Southeast Asia, in the world. On March 30 2020, there were 693,224 recorded cases with a total of 33,106 deaths. The COVID-19 pandemic occurred in Europe and North America, which has passed through China, with the highest cases and deaths (Susilo et al., 2020).

II. LITERATURE REVIEW

1) Behavioral Finance

Behavioral finance is the study of the influence of psychology on the behavior of investors/financial analysts. Behavioral finance is the study of how psychological phenomena influence the financial behavior of stock players (practitioners) and how humans behave in actual financial decisions. This theory focuses on the fact that investors are not always rational and will be influenced by investor psychology. This research is supported by (De Bondt & Thaler, 1985) which proves that most investment decisions are distorted by irrational things such as sentiment and beliefs, giving rise to sudden price changes.

In the discussion in behavioral finance, investors act irrationally because they are influenced by cognitive biases and emotional biases. Cognitive bias is a deviation in decision-making, while emotional bias is a decision-making error due to ignoring facts. In recent conditions, COVID-19 pandemic has affected individual mental health as much as financial markets (Naseem et al., 2021). Researchers prove that investor psychology shows a downward trend in the stock market. Pessimistic behavior encourages investors to stop financial investments in the stock market, as a result stock market returns decrease. This incident is because of COVID-19 pandemic, investors are more concerned with life and livelihood, not about wealth and free time. Naseem et al (2021) prove that the downward trend in the stock markets of China, Japan and the United States is the result of investors no longer behaving rationally.

The latest findings by Yiadom et al (2024) with research on election events that influence capital market performance found that election activities had a positive impact on capital market performance, while changes in government had a negative impact. As a result, the study recommends that stock market stakeholders remain vigilant and actively monitor election events to design and implement effective policies aimed at reducing political risks during general elections. There needs to be steps so that investor confidence can be significantly increased, thereby encouraging stronger investment.

2) Capital Market Performance

Wang & Liu (2022) thoroughly researched the relationship between the COVID-19 virus disease and daily stock price changes. Researchers used several types of COVID-19 patients as indicators to find out whether stock prices were significantly affected by the impact of COVID-19. One of sample is the Chinese stock market, researchers are specifically interested in the psychological and business impact of COVID-19 on financial markets. This research makes two contributions to the literature. First, from a theoretical perspective, this report shows a new quantitative relationship between psychological responses to pandemic and stock prices. This study illustrates the mechanism of shocks in the stock market by showing specific functional expressions of impulse reactions. The first theoretical calculation concerns the drivers of shocks in financial markets. Second, this research empirically estimates the marginal impact of the COVID-19 pandemic on stock market return fluctuations and how to analysis stock market. Monitoring stock fundamentals, this research also estimates various industry responses to stock volatility due to the pandemic. Researchers state that the COVID-19 pandemic has caused panic in the stock market, which not only suppressed stock prices but also increased the volatility of daily returns.

Regarding shock drivers, researchers identify the cumulative levels of pandemic variables as well as their additional differences. As the empirical results show, these differences eventually will dominate the marginal effects, confirming the waning of the shock impulse. Finally, this study highlights some important policy implications of stock market volatility.

The Indonesia economic crisis in 1998 which was followed by the world crisis in 2008 which hit the whole world was a phenomenon in a country that had a negative impact on the economy of countries including Indonesia. Macroeconomic factors have had a huge impact. These factors influence stock prices and the Composite Stock Price Index (IHSG) so that the Indonesian capital market experiences a decline according to
This incident was reinforced by the COVID-19 virus outbreak that hit the world in 2020. The COVID-19 virus first appeared in Wuhan, China at the end of 2019. This virus spread very quickly from human to human, from one country to another. until it spread throughout the world, including Indonesia. The COVID-19 pandemic also affects the Composite Stock Price Index (IHSG), where investors use the IHSG to estimate the level of economic growth in a country and the development of a country's investment.

Suwarto & Wulandari (2021) examined the impact of COVID-19 on the reaction of the Indonesian capital market (case study on the LQ-45 stock index). To test market reaction. Researchers concluded that testing of abnormal returns and trading volume activity before and after the announcement of the COVID-19 event on March 2 2020 experienced significant changes, meaning that abnormal returns and trading volume activity had a significant influence on the reaction of the Indonesian capital market (Study). Case on LQ45 Shares).

3) Winner and Loser Portfolio

De Bondt & Thaler (1985) divided the stock collection into 2 groups, namely winner stocks (shares that have good performance) and loser stocks (shares that have poor performance). The term winner-loser is an anomaly that occurs in the capital market. This anomaly can also be called a reversal effect. De Bondt & Thaler (1985) stated that the cause of this anomaly is the overreaction hypothesis, where market players tend to assign excessive weight to information that is considered good and bad.

This anomaly was first popularized by (De Bondt & Thaler, 1985) who found that shares that initially gave very positive (winner) or very negative (loser) profits would experience a reversal in subsequent periods (Warninda, 1988), where securities that are predicated as winners should still provide positive profits and losers should provide negative profits. Researchers prove that investors who buy loser shares and sell shares when they become winners will gain significant abnormal profits of 15% each year during the research period. Warninda (1988) explained that loser stocks can gain an average profit of 24.5% greater than winner stocks during the research period.

4) Optimal Portfolio

An efficient portfolio is a good portfolio, but not the best. The best portfolio is the optimal portfolio. An efficient portfolio only has one of the best factors, namely the expected return factor or risk factor. Meanwhile, the optimal portfolio is the portfolio that has the best combination of expected return and risk. Forming an optimal portfolio can be done using two methods:
1. Markowitz Approach
2. Single Index Model Approach (Single Index Model)

5) Return on Equity (ROE)

Almira & Wiagustini (2020) examined Return on Equity (ROE) which is a ratio that shows how much equity contributes to creating net profit. From this understanding, it can be seen that Return on Equity is a measuring tool for investors to determine the company's ability to see how much the company uses its equity to generate profits. The higher the rate of return on equity, the higher the profit obtained by the company from its equity. On the other hand, the lower the rate of return on equity, the lower the profit obtained by the company from its equity. The profitability ratio illustrates that the company is able to generate profits. During this pandemic, companies also had difficulty sending goods or workers (Jallow et al., 2020).

6) Debt to Equity Ratio (DER)

DER is the ratio of total debt to total company equity. A high DER indicates that the company has a high amount of debt and indicates that the company's dependence on equity financing using debt is also high and will cause the company value to decrease (Angraini, 2014). Debt to equity ratio (DER) is useful for to know amount of funds provided by loans (creditor) to company owners. This ratio used to assess debt versus equity, to find this ratio by comparing all debt, including current debt, with all equity (Kasmir, 2017).

7) Exchange Rate

The exchange rate measures the rupiah rate in foreign currency units (USD). The exchange rate is the value of a country's currency measured by the value of one currency unit against another country's currency. If a country's economic conditions change, it is usually followed by a substantial change in the exchange rate.
Rupiah exchange rate or also called the Rupiah exchange rate is a comparison of the value or price of the Rupiah currency with other currencies. A stable exchange rate is needed to achieve a business climate that was conducive to improving the business world (Saputra & Dharmadiaksa, 2016).

8) Inflation

Inflation is a symptom of a general and continuous increase in the prices of goods. From this inflation, there are three components that must be met for it to be said to be inflation:

1. Price Increase

   The community unit price is said to increase if it becomes higher than the previous period. Price level comparisons can be made over longer time intervals such as a month, quarter and year.

2. General in nature

   An increase in prices in a community cannot be considered inflation if the increase does not cause prices to rise as a whole. Indonesia's experience shows that every time the government increases fuel prices, prices in other communities also increase. Because BBM is a strategic community, the increase in fuel prices will spread to price increases in other communities.

3. Continuously ongoing

   A general price increase will not give rise to inflation, if it only occurs for a moment. Therefore, inflation calculations are carried out over a minimum of a monthly period. Because within a month you will see whether the price increase is general and continuous over a longer period of time, namely quarterly and annually.

Inflation is often associated with economic measures that provide insight about the increase in the average price of goods and services produced by the system economy. High inflation will cause people's purchasing power to decrease and can cause a recession. Rising inflation will push interest rates up. The reason for inflation can be categorized into two things according to (Suad, 2019):

1. Demand Full Inflation

   Increased demand for goods and services causes increased demand for factors of production. Increasing demand on production causes the prices of production factors to increase. So, inflation occurs due to an increase in total demand when the economy in question is in a full employment situation. Inflation is caused by excessive total demand resulting in changes in the price level which is known as demand full inflation.

2. Cost Push Inflation

   This inflation occurs due to increasing production costs (input), so resulting in the price of the products (output) produced also rising. The classification of inflation can simply be classified as follows:

   a. Based on the Occurrence of Inflation

      i. Inflation originates from within the country, for example as a result of a budget deficit financed by printing new money and market failure which results in expensive food prices.

      ii. Inflation originating from abroad, namely inflation as a result of rising prices of imported goods and can occur due to high production costs of goods from foreign imports or an increase in tariffs on imported goods.

   b. Based on the Scope of Effect of Price Increases

      If there is a general increase in prices only relating to certain goods on a continuous basis, it is called closed inflation and if the price increase occurs as a whole, it is called open inflation, whereas if the attack of inflation is so severe and prices continue to rise at all times, changes and increases so that people cannot hold money any longer because the value of money continues to decline, which is called uncontrolled inflation (hyperinflation).

   c. Based on whether inflation is severe or not

      Based on whether it is severe or not, inflation can be classified:

      i. Mild inflation (under 10% a year)

      ii. Moderate inflation (between 10% - 30% a year)

      iii. Heavy inflation (between 30% - 100% a year)

      iv. Uncontrolled inflation (above 100% a year)

      In general, inflation has both positive and negative impacts, depending on whether the inflation is severe or not. If inflation is mild, actually has a positive influence in the sense that it can encourage a better economy, namely increasing national income and making people enthusiastic about working, saving and investing. On the other hand, in severe inflation, namely when there is controlled inflation (hyperinflation), the economic situation becomes worse. Chaos and the economy becomes sluggish.

9) Interest Rate

Interest rate is the amount of interest paid per unit of time. In other words, people have to pay for the opportunity to borrow money. The cost of borrowing money is measured in Rupiah or Dollars per year for each
Rupiah or Dollar borrowed is the Interest Rate. According to (Astuti, 2013), the interest rate is the price that must be paid by the borrower to obtain funds from the lender for a certain period of time. An unreasonable increase in interest rates will make it difficult for the business world to pay interest expenses and obligations, because high interest rates will increase the burden on companies and will directly reduce company profits. The interest rate is an indicator in determining whether someone will invest or save.

## III. HYPOTHESIS DEVELOPMENT

Yiadom et al (2024), with research on election events that influence capital market performance, found that election activities had a positive impact on capital market performance, while changes in government had a negative impact. As a result, the study recommends that stock market stakeholders remain vigilant and actively monitor election events to design and implement effective policies aimed at reducing political risks during general elections. There need to be steps so that investor confidence can be significantly increased, thereby encouraging stronger investment.

Mazur et al (2021) show that the share price fell in March 2020 marked one of the largest stock market crashes in history. The stock market fell 26% in four days. This event was caused by the COVID-19 pandemic and the government's dramatic response to the COVID-19 event. According to the latest statistics, US GDP fell 4.8% in the first quarter of 2020 and the unemployment rate soared to above 20%. In this research, Mazur et al. (2021) show that during the month of March 2020 the stock market fell, shares in the health, food, natural gas and software sectors performed very well and generated high profits, while companies operating in the crude oil, real estate, entertainment and hospitality sectors plunged and lost more than 70% of their market capitalization. Loser stocks have more asymmetric movements and show extreme volatility which is negatively correlated with stock returns. Mazur et al (2021) also show that some companies responded adequately to earnings shocks by cutting costs, including remuneration for top management and board members, while others raised salaries and implemented new cash awards. This latter behavior can indicate poor corporate governance.

Lesmana & Saadah (2021) show that the movement of stock returns is not significantly influenced by pandemic indicators, the number of cases, the daily number of deaths, and government policies in dealing with it. A very important stock market performance that has been significantly affected by the pandemic is the volatility of returns. This study produces empirical findings that government policies regarding social restrictions contribute significantly to suppressing stock market volatility. An increasingly volatile market will lead to higher risks and uncertainty faced by investors in investing. The results of this research will be important information for portfolio managers in assessing the risks of investing in the Indonesian financial market during the COVID-19 pandemic. Investment risks are closely related to the policies implemented by the government to mitigate the risk of the spread of the virus.

He et al (2020) tried to explore the direct effects and impact of COVID-19 on the stock market. Using the t-test and the non-parametric Mann – Whitney test, this study empirically analyzes daily return data from stock markets in the Republic of China, Italy, South Korea, France, Spain, Germany, Japan and the United States. Our empirical results show that (i) COVID-19 has a negative but short-term impact on securities markets in the affected countries and that (ii) the impact of COVID-19 on stock markets has two-way spillover effect between Asian and European countries and -USA. However, there is no evidence that COVID-19 has a negative impact on the stock markets of the Americas compared to the global average.

Zhang et al (2020) researched the impact of the COVID-19 pandemic on financial markets globally. This research uses the independent variable of the COVID-19 pandemic and the dependent variable of global financial markets. Data analysis uses volatility analysis and correlation analysis and this research provides a simple and statistical analysis of the impact of the COVID-19 pandemic on stock market risk. This virus has claimed thousands of lives and brought significant challenges to countries around the world. Financial markets have seen dramatic movements on an unprecedented scale. The results of this research indicate that global financial market risks have increased substantially in response to the pandemic. Individual stock market reactions are clearly tied to the severity of the outbreak in each country. The great uncertainty of the pandemic and the associated economic losses have caused markets to be highly volatile and unpredictable.

**Hypothesis**

H1: Portfolio winner has a positive effect on capital market performance before and during the COVID-19 pandemic
H2: Loser portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic
H3: Optimal portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic
H4: ROE has a positive effect on capital market performance before and during the COVID-19 pandemic
H5: DER has a positive effect on capital market performance before and during the COVID-19 pandemic
H6: Inflation has a positive effect on capital market performance before and during the COVID-19 pandemic
H7: Exchange rate has a positive effect on capital market performance before and during the COVID-19 pandemic
H8: Interest rates have a positive effect on capital market performance before and during the COVID-19 pandemic

IV. RESEARCH METHODS

This research uses a type of quantitative research by testing hypotheses. The data are using time series and cross-section data. The use of panel data analysis will produce a model structure consisting of: common model, random effect model and fixed effect model, each of which will provide different criteria for the characteristics of both individual companies and time, and then the best model will be selected. The type of data used in this research is secondary data sourced from the Indonesian Stock Exchange and Bank Indonesia in the period six months before the pandemic and six months during the COVID-19 pandemic, namely September 2019 – August 2020. The sample consists of 26 LQ45 companies.

V. RESULTS AND DISCUSSIONS

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<tr>
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<th>P-value</th>
<th>Results</th>
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Notes: *) Significant at 10% and **) Significant at 5%

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<td>INTEREST</td>
<td></td>
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<td>0.0000**</td>
<td>Positive Significant</td>
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Notes: *) Significant at 10% and **) Significant at 5%
TABLE II
OPTIMAL MODEL T-TEST

<table>
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<th>Variable</th>
<th>Coefficient</th>
<th>P-value</th>
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Notes: *) Significant at 10% and **) Significant at 5%

**H1: Portfolio winner has a positive effect on capital market performance before and during the COVID-19 pandemic**

The result of winner portfolio has a positive influence on capital market performance before and during the COVID-19 pandemic. The hypothesis which states that the winner portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic is proven. The research results show that increasing the winner portfolio will improve capital market performance and conversely decreasing the winner portfolio will reduce capital market performance.

**H2: Loser portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic**

The result of loser portfolio has a negative effect on capital market performance before and during the COVID-19 pandemic, meaning that increasing the loser portfolio will reduce capital market performance and conversely decreasing the loser portfolio will increase capital market performance before and during the COVID-19 pandemic.

**H3: Optimal portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic**

The research results show that the hypothesis that optimal portfolios have a positive effect on capital market performance is not proven. These findings show that the optimal portfolio has no effect on capital market performance before and during the COVID-19 pandemic.

**H4: ROE has a positive effect on capital market performance before and during the COVID-19 pandemic**

The result of data processing in the winner, loser and optimal models show that ROE has a positive effect on capital market performance before and during the COVID-19 pandemic. The hypothesis which states that ROE has a positive effect on capital market performance before and during the COVID-19 pandemic is proven, which means that increasing ROE will improve capital market performance and conversely decreasing ROE will reduce capital market performance before and during the COVID-19 pandemic.

**H5: DER has a positive effect on capital market performance before and during the COVID-19 pandemic**

a. The winner model shows that increasing DER will improve capital market performance and conversely decreasing DER will reduce capital market performance. The hypothesis which states that DER has a positive effect on capital market performance is proven in the winner model.

b. The hypothesis obtained by the loser model which states that DER has a positive effect on capital market performance is not proven. The test results in the loser model stated that DER had no effect on capital market performance before and during the COVID-19 pandemic.
c. In the optimal group, the test results show that increasing DER will reduce capital market performance and conversely decreasing DER will increase capital market performance. The research findings do not support the hypothesis and the test results in this study found that DER had a negative effect on capital market performance before and during the COVID-19 pandemic.

H6: Inflation has a positive effect on capital market performance before and during the COVID-19 pandemic

The winner, loser and optimal models show that increasing inflation will improve capital market performance and conversely decreasing inflation will reduce capital market performance. The hypothesis states that inflation has a positive effect on capital market performance.

H7: Exchange rate has a positive effect on capital market performance before and during the COVID-19 pandemic

a. Exchange rate has no effect on capital market performance in the winner and loser models.

b. Optimal model proves that a depreciating rupiah against the dollar will reduce capital market performance and conversely an appreciation of the rupiah against the dollar will increase capital market performance, which means this finding states that the exchange rate has a negative effect on capital market performance for companies that are in the optimal group. The research findings do not support the hypothesis which states that exchange rates have a positive effect on capital market performance.

H8: Interest rates have a positive effect on capital market performance before and during the COVID-19 pandemic

The result of the test above shows that interest rate has a positive effect on capital market performance before and during the COVID-19 pandemic in all groups, namely winners, losers and optimal. Interest is a measure of the price of resources used by debtors that must be paid to creditors.

VI. CONCLUSIONS AND SUGGESTIONS

Conclusions

1. Winner portfolio has a positive effect on capital market performance before and during the COVID-19 pandemic.
2. Loser portfolio has a negative effect on capital market performance before and during the COVID-19 pandemic.
3. The optimal portfolio has no effect on capital market performance before and during the COVID-19 pandemic.
4. Return on equity (ROE) in the winner, loser and optimal model has a positive effect on capital market performance before and during the COVID-19 pandemic.
5. Debt to Equity Ratio (DER) has a positive effect on capital market performance before and during the COVID-19 pandemic in the winner group. The findings in the loser group show that DER has no influence on capital market performance before and during the COVID-19 pandemic. In the optimal group, it shows that DER has a negative effect on capital market performance before and during the COVID-19 pandemic.
6. Inflation has a positive effect on capital market performance before and during the COVID-19 pandemic in the winner, loser and optimal groups.
7. Exchange rate has no effect on capital market performance before and during the COVID-19 pandemic in the winner and loser groups, whereas in the optimal group the exchange rate has a negative effect on capital market performance before and during the COVID-19 pandemic.
8. Interest rate has a positive effect on capital market performance before and during the COVID-19 pandemic in the winner, loser and optimal groups.
Suggestions

1. Research can be carried out with other events such as elections or political changes in a country, recent findings by (Yiadom et al., 2024) found that election activities have a positive impact on capital market performance, while changes in government have a negative impact.

2. The researcher suggests that further research can extend the research period, so that the consistency of these variables will be known in looking at the influence of factors that influence capital market performance. The latest findings by (Trichilli & Boujelb, 2023) show that the optimal portfolio influences capital market performance in the period April 2019 – March 2022. The variable studied by (Trichilli & Boujelb, 2023) is the optimal portfolio variable, so until now no one has examine winner portfolio and loser portfolio variables.

3. In further research, the sample used can group companies into groups of large asset companies and small asset companies.

REFERENCES


