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Market Reaction to MUI Fatwa on Boycott: Evidence from Retail Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

Objective: This study aims to examine the effect of abnormal return and trading volume activity before and after a specific event in the capital market. The research seeks to determine whether the event generates significant differences in stock performance indicators, reflecting market reaction and efficiency.

Methodology: This study employed an event study approach using quantitative methods. The sample consisted of 10 observations (N = 10) covering stock abnormal returns and trading volume activities before and after the event. Data were processed using SPSS with Paired Samples Test to assess the differences between the two periods. Descriptive statistics were also applied to capture variations in minimum, maximum, mean, and standard deviation values across the observed variables.

Findings: The results indicate that there is no significant difference in abnormal return before and after the event, as evidenced by a two-tailed p-value greater than 0.05. This suggests that the capital market remains relatively efficient, and investors do not obtain abnormal returns during the observation period. Conversely, trading volume activity shows a one-tailed significance, implying that the event influences market activity if the research hypothesis is directional. However, the two-tailed test demonstrates that the effect is not statistically significant in a non-directional context.

Conclusion: The findings reveal that the event has a stronger impact on trading volume activity than on abnormal returns, which remain relatively stable. These results highlight the importance of considering the directional hypothesis in capital market event studies and reinforce the notion of market efficiency in processing information.

Keyword : Abnormal Return, Trading Volume Activity, Event Study, Market Efficiency.

Introduction

The conflict between Israel and Palestine, which escalated on October 7, 2023, has triggered a humanitarian crisis with significant global repercussions. As of May 2024, the reported death toll in Gaza had reached more than 36,000 people, including thousands of children (Jazeera, 2024). This tragedy has drawn wide international attention and generated political, social, and economic responses across countries. Indonesia, as the world's most populous Muslim-majority country, reaffirmed its political support for Palestine, further reinforced by the issuance of the Indonesian Ulema Council (MUI) Fatwa No. 83 of 2023.

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The fatwa mandates support for the Palestinian struggle and prohibits any support for Israel's aggression and its affiliates (Azharun, 2023). It also calls for a boycott of products affiliated with Israel, which has had serious implications for social, economic, and religious aspects in Indonesia (Wibowo et al., 2024).

The boycott fatwa has generated a dual dynamic. On the one hand, it gains moral-religious legitimacy and strengthens solidarity among Muslims. On the other hand, a paradox emerges because several products on the boycott list actually hold halal certification, creating debates regarding its implementation (Akbar et al., 2025). Social research shows that public responses to the fatwa are influenced by religious identity, information literacy, and moral sentiment (Faza et al., 2022; and Kim et al., 2022). This indicates that the fatwa is not merely a religious issue but also a socio-economic signal that shapes consumer and investor behavior.

From the perspective of signaling theory (Spence, 1973), the boycott fatwa can be viewed as new information that affects investor expectations. If perceived negatively, such a signal has the potential to drive declines in stock prices and trading volumes of companies associated with Israel (Muth'iya et al., 2024). Several international studies support this argument. Chen (2023); and Friedrich et al., (2023) found that religion-politics-related events, such as the controversy over Prophet Muhammad cartoons, led to decreased trading activity and increased financial costs. In the United States, Eva & Jaion (2023); and Koku et al., (1997) confirmed that boycotts negatively affect the stock returns of targeted firms. Similar results were reported by Dogan (2025) in the Istanbul Stock Exchange and by Setiana et al., (2025) for manufacturing firms listed on the IDX.

However, prior research findings remain significantly varied. Maulidiana & Putra (2024) revealed that the MUI Fatwa had a negative impact on the profitability of Israeli-affiliated companies, while Gunibala et al., (2024); and Safrianti et al., (2024) only detected short-term negative abnormal returns. Murharsito & Fauziah (2025) even argued that company clarifications could moderate the negative impact of the fatwa, thereby reducing market pressure. On the other hand, consumer-based studies (e.g., Afifah et al., 2024; Wibowo et al., 2024; and Khotimatul Husna et al., 2023) emphasized shifts in purchasing interest and social behavior rather than capital market dynamics. These differences highlight a research gap, particularly concerning specific subsectors that may be more vulnerable to shifts in socio-religious sentiment.

Based on this gap, the present study focuses its analysis on retail companies listed on the Indonesia Stock Exchange (IDX). The retail sector is selected due to its sensitivity to changes in consumer preferences and public sentiment, making it more susceptible to the socio-religious impacts of the MUI boycott fatwa. Using an event study approach, this research aims to examine market reactions to MUI Fatwa No. 83/2023 through an analysis of abnormal returns and trading volume activity. The findings are expected to enrich the literature on the interaction between religious fatwas, consumer behavior, and capital market dynamics in Indonesia.

Literature Review

Product Boycott

Conceptually, a boycott is understood as a form of collective consumer protest by refusing to purchase, use, or engage in transactions with certain products or companies as a means of exerting moral, political, or economic pressure. Kim et al., (2022) explain that a boycott represents consumer expression driven by moral sentiment and cultural affinity,

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whereas Chen (2023) emphasizes its economic dimension as a market mechanism to convey social resistance. This difference in emphasis suggests that a boycott should not only be seen as a normative act but also as an economic instrument capable of influencing market behavior.

In the Indonesian context, the boycott gained religious legitimacy following the issuance of the Indonesian Ulema Council (MUI) Fatwa No. 83 of 2023, which mandates support for the Palestinian struggle and prohibits any support for Israel and its affiliates (Azharun, 2023). This fatwa strengthened the position of the boycott as a binding moral signal for the Muslim community, although it also presented a paradox since some products on the boycott list hold official halal certification (Akbar et al., 2025).

Several studies confirm that boycotts have implications for consumer behavior and public opinion. Faza et al., (2022) found that consumer resistance arises when brand values conflict with religious and moral principles. Meanwhile, Wibowo et al., (2024) showed that the boycott fatwa reinforces moral legitimacy and enhances public compliance in collective action. However, its impact on businesses is not uniform. Khotimatul Husna et al., (2023) emphasized that the varying effects of boycotts are strongly influenced by the intensity of campaigns, the degree of public engagement, and the strategic position of products in the market.

Stock Price

Conceptually, stock price reflects a company’s market value, which is shaped through the interaction of investor demand and supply, and is highly sensitive to external information that influences expectations of firm performance. Koku et al., (1997) explain that boycotts may serve as negative signals that suppress market value through abnormal returns, while Eva & Jaion (2023) emphasize that firms targeted by boycotts experience negative abnormal returns as a corrective response by investors to reputational risks. Cross-country evidence also demonstrates consistency. For instance, Chen (2023) documented a decline in trading activity following the controversy over the Prophet Muhammad cartoons in Europe, while Dogan (2025) confirmed a significant impact of boycotts on market volatility in the Istanbul Stock Exchange. These differing emphases highlight that stock prices not only reflect fundamental conditions but are also influenced by social and political factors that form part of global market dynamics.

Within the Indonesian context, empirical findings indicate varied outcomes (e.g., Gunibala et al., 2024, Safrianti et al., 2024, and Muth’iya et al., 2024) indicate that the MUI Fatwa No. 83 of 2023 triggered negative abnormal returns, although the effects tended to be short-term and inconsistent across firms. Conversely, Maulidiana & Putra (2024); and Khotimatul Husna et al., (2023) found that the boycott fatwa did not generate significant changes in the stock prices of certain companies. These variations reaffirm that the market response to boycotts is contextual, depending on sector sensitivity, product diversification, and investor perceptions of the credibility of the signals conveyed.

Trading Volume

Conceptually, trading volume is understood as a measure of stock transaction activity that reflects both market liquidity and investor attention to an external event. Gunibala et al., (2024) emphasize that trading volume can serve as a proxy to assess the magnitude of market reactions to new information, while Safrianti et al., (2024) highlight its role in identifying investor responses to fatwas or boycott actions through the intensity of stock

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buying and selling. Furthermore, Ramadhani & Nurhidayat (2024) underline that trading volume not only indicates liquidity but also reflects short-term speculative behavior by investors. Within the perspective of Signaling Theory (Spence, 1973) changes in volume are viewed as an initial response to signals received by the market, whether positive or negative, depending on the perceived credibility of the information.

Empirical evidence regarding the impact of boycotts on trading volume also remains mixed. Gunibala et al., (2024) found that the announcement of MUI Fatwa No. 83 of 2023 triggered an increase in trading activity for several affected retail firms, suggesting speculative reactions. In contrast, Safrianti et al., (2024) ; and Muth'iya et al., (2024) reported that the fatwa did not generate significant differences in stock trading activity on the Indonesia Stock Exchange, while Ramadhani & Nurhidayat (2024) also confirmed transactional stability before and after the event.

In the context of this study, trading volume is therefore treated as a measurable market response to the issuance of MUI Fatwa No. 83 of 2023, capturing both immediate speculative reactions and shifts in investor attention toward companies associated with the boycott. This operationalization allows for a systematic assessment of how socio-religious signals influence market behavior beyond price movements, bridging the gap between behavioral finance and signaling theory.

Thus, in synthesis, trading volume can be defined as a quantitative indicator that reflects liquidity, investor attention, and speculative reactions to information or events, which in the context of this study is treated as a market response to the issuance of MUI Fatwa No. 83 of 2023.

Signaling Theory

The signaling theory introduced by Spence (1973) explains that certain events can act as signals influencing market behavior. In the context of capital markets, the MUI boycott fatwa can be interpreted as a negative signal regarding the prospects of companies associated with Israel. International studies demonstrate that political-religious events exert a significant influence on markets (Friedrich et al., 2023; and Dogan 2025). However, findings in Indonesia remain inconsistent, with some studies reporting short-term negative abnormal returns (Gunibala et al., 2024; and Safrianti et al., 2024), while others emphasize stock price stability (Rakhmawati & Ameli, 2025).

Overall, the literature suggests that boycotts have the potential to impact both consumer behavior and capital markets, but empirical evidence in Indonesia remains limited and inconclusive. Most previous studies examined the impact of the MUI fatwa generally across all sectors, Israeli-affiliated companies (Maulidiana & Putra, 2024; and Murharsito & Fauziah, 2025) or at the macro-index level such as ISSI (Ramadhani & Nurhidayat, 2024). Consumer-based studies (Afifah et al., 2024; and Wibowo et al., 2024) emphasized social behavior, such as changes in consumer purchasing patterns, community engagement, and collective responses to religious or moral directives, whereas international research predominantly focused on other country contexts, analyzing market reactions, stock returns, and trading behaviors under different regulatory, cultural, and socio-political environments. This distinction highlights how local studies prioritize societal and cultural dimensions of boycotts, while international studies often adopt a financial-market perspective, providing complementary insights into the broader effects of socio-religious events on economic outcomes.

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Thus, there remains a research gap concerning the market reaction within the retail subsector of the Indonesia Stock Exchange. This sector is particularly important to examine since it is strongly influenced by consumer preferences and shifts in public sentiment. The present study aims to fill this gap through an event study approach focusing on retail companies affected by MUI Fatwa No. 83/2023.

Research Framework and Hypotheses

Product Boycotts and Stock Prices

Product boycotts represent collective actions driven by social, political, and economic motives intended to exert pressure on specific entities. From a capital market perspective, boycotts can be viewed as events that serve as signals for investors in evaluating company prospects (Spence, 1973). The Indonesian Ulema Council (MUI) Fatwa No. 83 of 2023, which mandates support for Palestine and prohibits support for Israel and its affiliates, may be perceived by the market as a negative signal for companies associated with Israel.

Previous research supports this argument. International studies show that boycotts suppress the stock value of targeted firms, as evidenced by Koku et al., (1997) in the AS, Eva & Jaion (2023) on pro-Israel FMCGs in the U.S.,and Dogan (2025) in the Istanbul Stock Exchange. In Indonesia, Gunibala et al., (2024), Safrianti et al., (2024), and Muth'iya et al., (2024) reported negative abnormal returns following the MUI fatwa announcement, although the effects tended to be short-term. Conversely, Pujiastuti (2023); Safrianti et al., (2024); and Harish & Cupian (2025) demonstrated that boycotts did not lead to significant changes in the stock prices of certain companies. These findings indicate that the fatwa or boycott calls may function more as moral rather than financial signals, and thus are not always translated into price corrections by the market. Differences in outcomes across studies highlight that the boycott's impact is contextual and may vary across sectors depending on company diversification, industry sensitivity, and investor perceptions of signal credibility.

Based on the theoretical arguments and empirical evidence, the first hypothesis is formulated as follows:

H_1 : There is a difference in stock prices before and after the issuance of MUI Fatwa No. 83 of 2023 regarding product boycotts

Product Boycotts and Trading Volume

In addition to stock prices, trading volume is an important indicator reflecting liquidity and the intensity of investor reactions to an event. An increase in trading volume often signals market responses to new information as investors adjust their portfolios. Within the framework of signaling theory, the MUI fatwa can be interpreted as a reputational risk signal for affected companies, prompting buying and selling activities either speculatively or due to panic selling (Friedrich et al., 2023).

However, empirical findings on the boycott's impact on trading volume remain inconsistent. Gunibala et al., (2024) found that the announcement of MUI Fatwa No. 83/2023 triggered market reactions through increased trading activity in several affected companies. In contrast, Muth'iya et al., (2024) reported Safrianti et al., (2024) reported that the fatwa did not have significant implications for trading volume in the IDX, while Ramadhani & Nurhidayat (2024) also confirmed that the market remained relatively stable following the event.

These varying findings highlight that investor responses to boycott events are highly contextual and are influenced by factors such as the credibility of the signal, prevailing social

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and cultural contexts, and sectoral sensitivity. The inconsistent impact on trading volume underscores the need to examine both financial and non-financial dimensions when assessing market reactions to socio-religious signals like fatwas.

H_2 : There is a difference in trading volume before and after the issuance of MUI Fatwa No. 83 of 2023 regarding product boycotts.

Based on the above discussion, the conceptual framework of this study can be illustrated in the following figure.

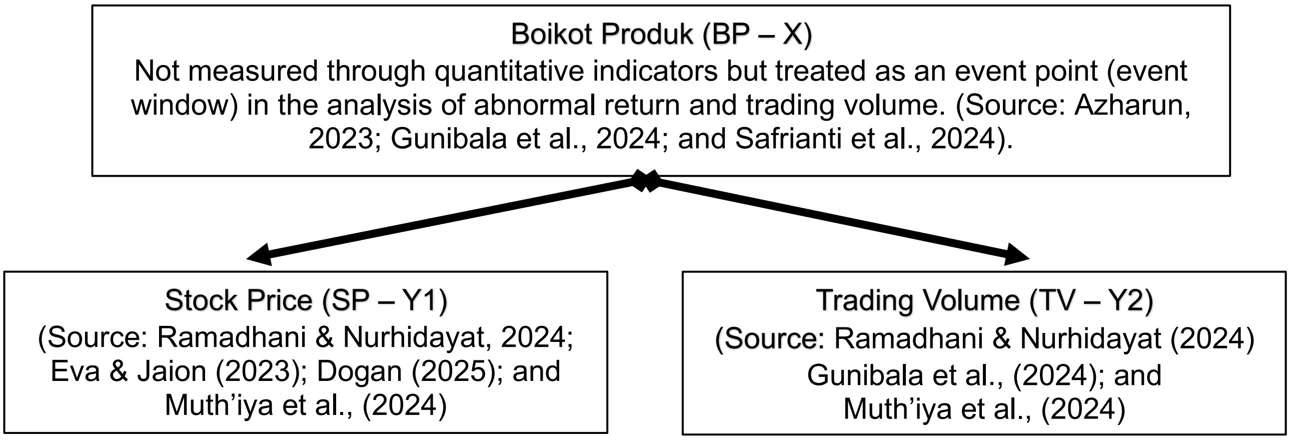

Figure 1. Research Framework: MUI Fatwa No. 83/2023 and Market Reactions

Research Methodology

Measurement Development

Product Boycott (BP – X): A product boycott is a collective consumer action to refuse purchasing, using, or transacting with certain products or companies as a form of moral, political, or religious protest. In this study, the boycott was triggered by the issuance of MUI Fatwa No. 83 of 2023, which mandates support for the Palestinian cause and prohibits support for Israel and its affiliates. This fatwa is regarded as an event representing a negative signal in the capital market (Azharun, 2023; Gunibala et al., 2024; and Safrianti et al., 2024). Therefore, the boycott variable is not measured through a questionnaire but is treated as an event point (event window) in an event study analysis.

Stock Price (SP – Y1): Stock prices reflect the market value of a company determined by investor supply and demand. In the context of the capital market, the daily closing price is commonly used as the main indicator because it represents the last transaction price, which serves as a reference for assessing market responses to new information (Ramadhani & Nurhidayat, 2024). To measure market reactions, abnormal returns are calculated using the market-adjusted model by comparing actual stock returns against market returns. This approach aligns with previous studies examining the impact of boycotts on capital markets, such as Eva & Jaion (2023); Dogan (2025); and Muth'iya et al., (2024), which similarly use abnormal returns as a proxy for investor responses to an event.

Trading Volume (TV – Y2): Trading volume is conceptually defined as the number of shares traded during a specific period, reflecting market liquidity and the intensity of investor participation. According to Ramadhani & Nurhidayat (2024), trading volume serves as a proxy for market reaction to an event because it reflects changes in investor buying and selling behavior. Key indicators include the number of shares traded daily and trading

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volume activity (TVA), calculated as the ratio of shares traded to shares outstanding to assess the proportion of transaction activity. Gunibala et al., (2024); and Muth'iya et al., (2024) emphasize that differences in average TVA before and after the event window can be used to detect investor reactions to new information, including the issuance of MUI Fatwa No. 83 of 2023. Thus, trading volume reflects both market liquidity and the behavioral responses of investors to normative signals conveyed within the market.

Findings

Descriptive statistical analysis was conducted to provide an overview of the data distribution for each research variable before hypothesis testing. Descriptive statistics include minimum, maximum, mean, and standard deviation (Std. Deviation), aiming to understand the characteristics of the data in more detail.

The following table presents the results of descriptive statistics for the Abnormal Stock Return variable before and after the event, as well as Trading Volume before and after the event, based on 10 observations (N = 10) with no missing data (valid N = 10).

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Abnormal Stock Return Before	10	-0.02351	0.0028	-0.00706	0.00874
Abnormal Stock Return After	10	-0.0199	0.00555	-0.00566	0.00913
Trading Volume Before	10	0.00011	0.004	0.00167	0.00125
Trading Volume After	10	0.00014	0.00299	0.0011	0.00085
Valid N (listwise)	10				

Source: Authors' Analysis (2025)

Table 1 presents descriptive analysis results for abnormal stock returns and trading volume activity before and after the event under study, with 10 observations (N = 10). All data could be processed without missing values, so the results represent the full sample condition.

For abnormal stock returns, before the event, the minimum value was -0.02351 and the maximum 0.00280, with a negative mean of -0.00706 and a standard deviation of 0.00874. These results reflect stock performance fluctuations with a negative tendency. After the event, the minimum value improved to -0.01990 and the maximum reached 0.00555, with a better mean of -0.00566 and a slightly higher standard deviation (0.00913), indicating a larger variation in abnormal returns after the event.

Meanwhile, for trading volume, before the event, the minimum was 0.00011 and the maximum 0.00400, with a mean of 0.00167 and a standard deviation of 0.00125. After the event, the minimum slightly increased to 0.00014, while the maximum decreased to 0.00299, with a mean decline to 0.00110 and a reduced standard deviation of 0.00085. These findings indicate that, although abnormal returns did not change significantly, trading volume activity tended to decrease following the event.

Uji Normalitas

The normality test is a critical step in data analysis as it ensures that the basic assumptions of parametric methods, such as the paired samples t-test, are met namely, that the data distribution approximates normality. This is supported by Knief (2021); and Khatun (2021), who state that data normality is a fundamental prerequisite before applying

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parametric statistical techniques, as violations of this assumption can lead to biased estimates and significance levels. Furthermore, Kharun's research on various normality tests concluded that the Shapiro–Wilk, Shapiro–Francia, and Anderson Darling tests exhibit the highest performance, especially for small to medium sample sizes. These three tests consistently outperform others, such as Lilliefors, Cramer–von Mises, and Jarque–Bera. Additionally, modern statistical practice guidelines emphasize that the normality assumption is more critical for small sample sizes, since the actual data distribution is more likely to affect statistical outcomes. Some statistical tools also recommend visualizations, such as Q–Q plots, to facilitate a more practical interpretation of normality.

Based on this empirical evidence, the present study selected the Shapiro–Wilk test to examine the normality of the abnormal return and trading volume variables both before and after the event. If the p-value exceeds 0.05, the data are considered normally distributed, and subsequent analyses using the paired samples t-test can be validly applied.

Table 2. Normality Test (Shapiro–Wilk)

Variabel	Statistic	df	Sig.
Abnormal Stock Return Before	0,896	10	0,197
Abnormal Stock Return After	0,904	10	0,244
Trading Volume Activity Before	0,919	10	0,351
Trading Volume Activity After	0,908	10	0,266

Source: Authors' analysis (2025)

Based on the results presented in Table 2, all research variables including abnormal stock returns and trading volume activity before and after the event show significance values (p-values) greater than 0.05. Specifically, the p-values for abnormal stock returns were 0.197 before the event and 0.244 after the event, while trading volume recorded 0.351 before and 0.266 after the event. These results indicate that the data distributions do not significantly differ from normal distributions.

Therefore, it can be concluded that the study data meet the normality assumption. Meeting this assumption is important because it underpins the appropriateness of applying parametric tests—in this case, the Paired Samples t-Test to examine differences in means before and after the event. By satisfying the normality assumption, it ensures that the test results are not biased due to non-normal data distribution, thereby increasing the reliability and robustness of the findings. This result also confirms that the analyses employed are statistically valid and capable of providing accurate interpretations of the phenomena under investigation.

Hypothesis Testing

To test the research hypotheses, the Paired Samples Test was employed. This test is used to determine whether there is a significant difference between two paired data groups, namely the conditions before and after an event. In this study, the comparison was conducted on Abnormal Stock Return and Trading Volume Activity.

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Table 3. Paired Samples Test Results

Pair	t	df	Significance (p-value)	
			One-Sided p	Two-Sided p
Pair 1: Abnormal Stock Return Before – After	-0,467	10	0,326	0,651
Pair 2: Trading Volume Before – After	2,012	10	0,038	0,075

Source: Authors' analysis (2025)

The results of hypothesis testing indicate that for the Abnormal Stock Return variable (Pair 1), the t-value of -0.467 with degrees of freedom (df) = 10 suggests that the difference in mean abnormal returns before and after the event is relatively small. The two-sided p-value of 0.651 ($p > 0.05$) confirms that there is no statistically significant difference in abnormal stock returns before and after the event. Thus, it can be concluded that the observed event did not have a meaningful impact on changes in abnormal returns. This finding reinforces the view that the capital market tends to be efficient in absorbing event-related information, so investors do not obtain significant abnormal returns from the occurrence of the event.

Meanwhile, for the Trading Volume Activity variable (Pair 2), the analysis shows a t-value of 2.012 with df = 10. The one-sided p-value of 0.038 ($p < 0.05$) indicates a significant difference if the research hypothesis is directional, for instance, assuming that trading volume increases after the event. However, the two-sided p-value of 0.075 ($p > 0.05$) suggests that the difference is not significant when tested without a specific direction (two-sided). This implies that the interpretation of the results should be cautious: significance is accepted only if the hypothesis specifies a particular direction of effect, but it is not considered significant for a general or two-tailed hypothesis.

The study findings show that abnormal stock returns did not change significantly before and after the issuance of MUI Fatwa No. 83 of 2023. This phenomenon is consistent with the Efficient Market Hypothesis (Fama, 1970), which posits that stock prices rapidly reflect all available information, making the opportunity for sustained abnormal returns relatively small. These results align with previous studies indicating that the impact of MUI fatwas on stock prices is limited and short-term (Gunibala et al., 2024; and Safrianti et al., 2024). Similar patterns are observed in cross-context research, where markets provide only temporary responses to political-religious issues such as the Muhammad cartoon controversy (Chen, 2023; and Friedrich et al., 2023) or boycotts of pro-Israel companies in international markets (Eva & Jaion, 2023; and Dogan, 2025).

In contrast, trading volume activity exhibits a different pattern. Statistical tests reveal significance in one-sided testing but not in two-sided testing, indicating that investor reactions are more reflected in transaction intensity than in stock price movements. Within the framework of market microstructure, trading volume reflects information asymmetry, liquidity, and speculative behavior in response to an event. This finding is consistent with (Wibowo et al., 2024) who reported significant differences in trading volume due to boycott actions, and aligns with international studies showing that abnormal trading volume is more sensitive to news than price changes (Chen, 2023).

Overall, this study concludes that the MUI boycott fatwa has a greater impact on the dynamics of trading volume than on abnormal returns. This suggests that investors in the Indonesian capital market respond to socio-religious events through short-term increases in transaction activity, while stock prices remain relatively stable in line with efficient market

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principles (Faza et al., 2022). Therefore, the boycott fatwa is perceived as a signal that triggers liquidity reactions but is not strong enough to alter the fundamental stock prices of retail companies listed on the IDX.

Discussion

Abnormal Stock Return Before and After the MUI Fatwa

The results indicate that the average abnormal stock return before the issuance of MUI Fatwa No. 83 of 2023 was –0.0070, while after the event it was –0.0056. This difference is relatively small and statistically insignificant (two-sided p-value = 0.651 > 0.05). These findings suggest that the MUI fatwa did not trigger meaningful changes in the abnormal returns of the sampled retail companies.

This phenomenon is consistent with the Efficient Market Hypothesis, which asserts that stock prices reflect all available information, thereby limiting the opportunity to obtain abnormal returns (Gunibala et al., 2024). From the perspective of Signaling Theory (Spence, 1973), the MUI fatwa can be considered a strong moral signal but not sufficiently credible as a financial signal capable of altering firm fundamentals. Investors appear to perceive the potential impact of the boycott as short-term, thus not changing the perceived firm value in a sustained manner.

These findings reinforce studies in Indonesia reporting heterogeneous market responses to MUI fatwas. observed negative abnormal returns, but these were limited to short-term periods. Conversely, Safrianti et al., (2024); and Muth'iya et al., (2024) found negative abnormal returns, but limited to short-term periods. Whereas, Pujiastuti (2023); and Maulidiana & Putra (2024) emphasized that stock prices of companies listed in boycott lists remained relatively stable. The present study aligns more closely with research emphasizing stability, particularly in the retail subsector with diversified product lines, such as PT Mitra Adiperkasa Tbk (MAPI), where the impact on specific brands can be offset by other business lines. These differences underscore that market responses to boycotts are highly contextual, depending on industry structure and investor risk perception.

Thus, this study not only confirms consistency with the Efficient Market Hypothesis but also extends the application of Signaling Theory in emerging market contexts. Socio-religious signals, such as the MUI fatwa, demonstrate limited influence on stock valuation but open new avenues for research on the differentiation between moral and financial signals in capital market literature.

Trading Volume Before and After the MUI Fatwa

The study shows that the average trading volume declined following the issuance of MUI Fatwa No. 83 of 2023, with indications of significance in one-sided testing but not in two-sided testing. This phenomenon suggests an initial investor reaction to the fatwa, although the response was insufficient to induce structural changes in transaction activity. This finding aligns with modern market microstructure literature, which emphasizes that trading volume is more responsive to speculative information and information asymmetry than stock prices, which tend to remain stable (Richter, 2022). In other words, the MUI fatwa is perceived as a non-economic signal that triggers short-term psychological reactions via transaction activity but does not persist in the long term.

Previous research shows diverse patterns. Gunibala et al., (2024) found that the fatwa announcement increased trading activity for several retail companies, indicating speculative reactions. Conversely, Safrianti et al., (2024); and Muth'iya et al., (2024) reported no

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significant differences in trading volume activity (TVA), while Ramadhani & Nurhidayat (2024) emphasized the stability of trading volume in sharia indices. This variation indicates that the impact of fatwas on trading volume is contextual, depending on signal credibility, sector sensitivity, and the degree of public participation in collective actions.

Academically, these findings expand microstructure literature in emerging markets by incorporating socio-religious perspectives as triggers for volume movements. While international studies, such as Dogan (2025) in the Istanbul Stock Exchange, highlight trading volume sensitivity to geopolitical issues, the results in Indonesia indicate that normative signals in the form of religious fatwas can induce similar reactions, albeit limited and inconsistent. Thus, this study reinforces the distinction between moral and financial signals: moral signals can drive short-term trading activity but lack sufficient credibility to alter long-term stock valuation.

Critical Analysis and Theoretical Implications

These findings underline that the Indonesian capital market is more influenced by firm fundamentals than normative factors. The MUI fatwa carries strong religious legitimacy, but its economic power to affect abnormal returns is limited. In contrast, its impact is more evident on trading volume, reflecting investors' emotional and speculative short-term reactions.

This study contributes by extending Signaling Theory through the differentiation between moral signals (fatwas, religious calls, and social actions) and financial signals (financial reports, corporate actions, earnings performance). The results demonstrate that moral signals can trigger transactional fluctuations but are insufficient to alter fundamental valuation. The novelty of this study lies in its focus on the retail subsector on the IDX, which shows high sensitivity to consumer preferences while maintaining long-term valuation stability. This provides evidence that religious fatwas act more as catalysts for short-term liquidity rather than determinants of long-term market value.

In conclusion, this study expands capital market literature in emerging economies by showing that socio-religious factors have a limited effect on stock valuation but play a crucial role in understanding short-term trading dynamics. The findings also open new avenues for exploring the interactions among normative factors, consumer preferences, and firm fundamentals within the frameworks of the Efficient Market Hypothesis and Signaling Theory.

Conclusion

This study examined the impact of MUI Fatwa No. 83 of 2023 regarding the boycott of products affiliated with Israel on stock prices and trading volumes of retail companies listed on the Indonesia Stock Exchange (IDX). The event study analysis indicates that abnormal stock returns did not experience significant changes before and after the fatwa, which is consistent with the Efficient Market Hypothesis (Fama, 1970). These findings suggest that the fatwa was perceived by the market more as a normative signal rather than financial information capable of affecting firm fundamentals.

In contrast, trading volume showed indications of change in one-sided testing, although not significant in two-sided testing. This confirms that the MUI fatwa triggered short-term psychological responses in the form of increased transaction activity, but was not strong enough to alter long-term trading patterns. Therefore, the primary contribution of this study

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is to expand the understanding of Signaling Theory by distinguishing between moral signals, which affect short-term liquidity, and financial signals, which influence long-term valuation.

Recommendations

Academically, this study provides several implications. First, future research can expand the set of variables by including indicators such as investor sentiment, consumer confidence indices, or macroeconomic factors to obtain a more comprehensive understanding of the impact of boycotts on the capital market. Second, subsequent studies can broaden the sector and sample beyond the retail subsector, for example in banking, telecommunications, or FMCG, to improve generalizability. Third, from a methodological perspective, using a longer event window (±30 days) or non-parametric approaches could test the consistency of results and capture market reactions over different time horizons. Fourth, theoretically, integrating Signaling Theory with Behavioral Finance can enrich understanding of how investors respond to normative or religious signals, both rationally and emotionally.

Practically, the findings are also relevant for stakeholders. For MUI and regulators, the finding that the boycott fatwa functions more strongly as a moral instrument than an economic signal highlights the need for structured public communication strategies to enhance the credibility of fatwas as factors that can influence economic behavior. For retail companies, product diversification has proven to buffer the significant impact of boycotts; therefore, strengthening reputation management and public communication strategies is crucial to maintaining stock value stability. For investors, the results underscore the importance of distinguishing between short-term moral signals and long-term financial signals. Investors are advised not to overreact to normative events, but to remain focused on firm fundamentals when making investment decisions.

Despite its empirical and theoretical contributions, this study has several limitations that can be addressed in future research. First, the analysis is limited to retail companies, so generalization to other sectors requires further testing. Second, the relatively short event window may capture only short-term market reactions; subsequent studies could use a longer event window or longitudinal approach. Third, this study only examined abnormal returns and trading volume, whereas additional variables such as investor sentiment, consumer confidence indices, or macroeconomic factors could enrich understanding. Fourth, the study relies on Signaling Theory; future research could integrate it with Behavioral Finance to explain the psychological and emotional aspects of investors in responding to normative signals.

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