

Analysis of The U.S Exceptionalism Phenomenon, Stock Market Investment Momentum, and Its Implications on Indonesia's Economic Growth

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ABSTRACT: This research focuses on three things: the analysis of U.S Exceptionalism, the implications of U.S Exceptionalism on Indonesia's economic growth, and technical analysis to find the momentum to enter the US stock market. The variables used as a proxy for U.S Exceptionalism are M2, the MSCI Index, and the US Bond Yield. An explanation of the U.S Exceptionalism phenomenon that is occurring in the United States throughout 2021, is carried out through variance decomposition analysis with economic growth as the central variable. This study uses the Moving Average Convergence / Divergence (MACD) to find the momentum to enter the US stock market. The results show that the three variables representing US exceptionalism have contributed to Indonesia's economic growth sequentially; MSCI was 24.33%, US Bond Yield was 7.41%, and M2 was 5.59%. Meanwhile, for a time the phenomenon of U.S Exceptionalism contributed 30.13% to Indonesia's economic growth. From the technical analysis, we can find three entry points that can be used to enter the US stock market throughout 2021, namely in March 2021, June 2021, and October 2021.

Key Words: U.S Exceptionalism, Stock Market, Investment Momentum, Economic Growth, Covid-19 Pandemic

1. INTRODUCTION

The Covid-19 pandemic has not only affected countries around the world from a health standpoint but has also had an impact on the economies of these countries. The pandemic caused a very deep contraction in the Gross Domestic Product (GDP) worldwide. The supply chain began to be hampered and eventually also decline in production and international trade flows (Kalim Siddiqui, 2020).

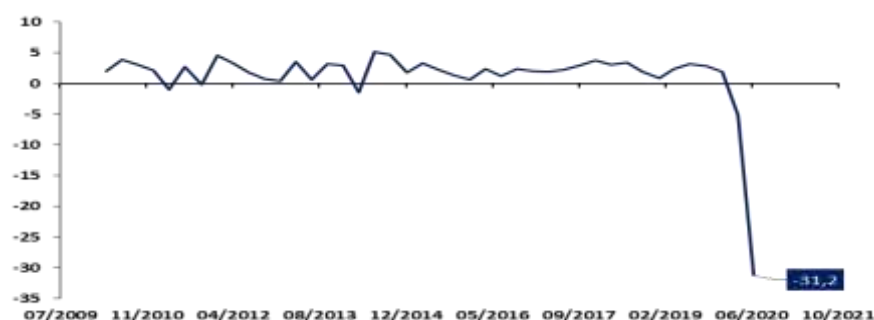


Figure 1.1 U.S GDP Growth

Sources: Bloomberg

The economic slowdown occurred throughout the world, including in the United States, which is the country with the largest economy in the world. It is estimated that GDP growth in the United States will contract by 32.90% in the second quarter of 2020. From March to April, approximately 52.70 million Americans are claiming unemployment insurance (Covid-19 Report, 2020). Small business revenue in the United States as of August 2020 for the tourism sector contracted by 47.50%. Meanwhile, the health and education sectors contracted by 16.40%, and the retail and transportation sectors contracted by 14.10%. Aggregate revenue for US small businesses across industries has contracted by 19.10% (Bauer, Broady, et.al).

When viewed from the perspective of the United States financial market, the Covid-19 Report (2020) also reported a contraction in the equity market. The S&P 500 weighted index, which contains the prices of the 500 major stocks traded in the United States, contracted by 20% in the first quarter of 2020 which was the biggest drop since the crisis that occurred in 2008. The Dow Jones Industrial Average index, which measures the performance of 30 stocks blue-chip companies in the United States, contracted by 23% which is the largest decline since 1987.

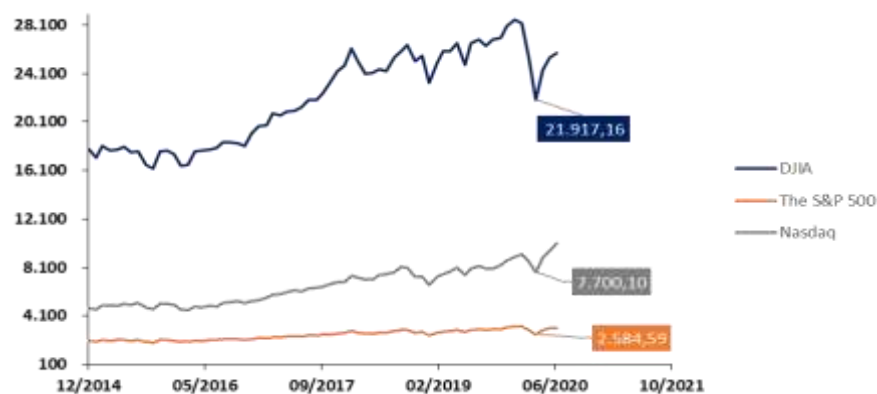


Figure 1.2 U.S Stock Index

Sources: Bloomberg

The condition of the Covid-19 pandemic has encouraged market players to enter into instruments that are safe-haven assets, including US government bonds. At the end of June 2020, the yields on the US Treasury 3-year, US Treasury 10-year, and US Treasury 30-year fell by 87%, 59%, and 33%, respectively. This decrease in yields occurred due to an increase in market risk during the Covid pandemic so there was a risk-off sentiment from market players and they moved to lower-risk assets.



Figure 1.3 U.S Yield Bond

Sources: Bloomberg

However, in early 2021 when the vaccine began to be distributed in the United States, the country's economy began to recover with a fairly fast growth rate. This is because the level of vaccine distribution in the United States as of February 19, 2021, based on data obtained from Bloomberg, has reached 56.99 million doses and is the country with the highest vaccine distribution in the world.

The research discusses how U.S. Exceptionalism can maintain the dominance of the United States in terms of private capital and white supremacy, as well as the strength of the United States when compared to other countries. U.S. Exceptionalism shows how the behavior and conditions of the United States are different from other countries both in terms of the economic and social aspects of the United States. The exceptional conditions that occur in the US are caused by the well-known resources of the United States, and also the combination of the capital-to-output ratio which drives the growth of the United States to be exceptional (Ramrattan & Szenberg, 2019). When viewed from one asset class, such as stocks, in 2020 the United States stock market index experienced an outperform when compared to the stock markets of non-United States countries. It doesn't just stop that year, this event will also continue until 2021 (Dimson, et al. 2021). The condition of the United States stock market in 2020 – 2021 also indicates the existence of the phenomenon or ideology of U.S Exceptionalism, especially during the Covid-19 pandemic period.

This study aims to analyze U.S Exceptionalism, the implications of U.S Exceptionalism on Indonesia's economic growth, and technical analysis to find the momentum to enter the US stock market. This study involves financial variables that show how the financial market position in the United States will be in 2021 after the vaccine runs when compared to other countries amid the Covid-19 pandemic. Also analyzes the movements of the financial markets in America, so that it can provide an overview of the right period to enter the US financial markets. The variables that are the focus of this research are US economic growth, US liquidity, both stock market liquidity and public savings, as well as the bond market, where all these variables indicate the US position as a country with the best vaccination rates to support economic conditions and financial markets in the United States, to be superior compared to other countries.

The condition of U.S Exceptionalism shows that there is an inequality of vaccinations that leads to inequality of economic recovery that is not evenly distributed throughout the world, where the United States is the country with the most favorable economic growth when compared to other countries. This condition certainly has an impact on the Indonesian economy. The slow supply of vaccines due to America's exceptionalism has also hampered Indonesia's economic growth. Apart from that, many foreign investors eventually moved their funds from the Indonesian financial market and returned to America because of America's position as a developed country with low risk having a high rate of economic growth amid the Covid-19 pandemic. This research is important because there are not many similar studies in the previous literature. We can find out the position of the United States amid a crisis/pandemic, can provide information to both domestic and foreign investors to place their funds in investment instruments whose base is in America and become one of the options for diversification in currency, geography, and economic sector.

2. LITERATUR REVIEW

The term U.S. exceptionalism refers to the belief that the United States of America is qualitatively different from other developed countries. This can be seen from the side of nationalism, how the history of the United States evolved, political institutions, and also from the side of religion (Ignatieff, 2005). So far it seems that there are very few or it can be said that there are no studies that discuss US exceptionalism in terms of economic growth with various supporting macroeconomic variables that also emerged along with the idea or momentum to enter the US stock market.

Dimson, Marsh, & Staunton (2021) in their research on American Exceptionalism, in the long run, conducted research on the composition of the global equity market for 121 years using databases from DMS and Morningstar. They perform long-term return analyses for all asset classes. The author presents the return on investment based on 90 countries, 23 of which have historical data from 1900. There are several main findings, including; i) The long-term growth of US financial assets has been extraordinary and currently represents approximately 56% of the world stock market capitalization. ii) The annual inflation-adjusted real return on American stocks is about 6.6%, which is greater than the return on international stocks of 4.5%. Meanwhile, the long-term government bond yield was 2.1%. iii) The stock return of the American stock market was not only superior in the 20th century, but in the 21st century as well. America's stock return (4.6%) exceeds the world's stock return of 2.8%. iv) The US market has excelled over non-US markets due to expansionary monetary policies and the high weighting of technology companies.

US Exceptionalism can also occur at the sectoral level, and not only in the aggregate or financial sector. Research conducted by Yilmazkuday, Crucini, Oh, and Cheng (2019), which examined about U.S Exceptionalism in the production, trade, and automotive sectors. They stated that the decline in employment in American manufacturing was caused by trade competition with China. One way to get those jobs back is to increase the tariffs on goods coming into America. In the case of the automotive industry, history has shown just the opposite. In the early 20th century, the US achieved a privilege in the innovation, production, and trade of automobiles without domestic tariff protection, while foreign countries had to struggle to protect domestic auto companies by imposing high tariffs. The erosion of US privilege in the automotive industry is clear, that US vehicle sales recorded by the big three: GM, Ford, and Chrysler, have fallen sharply since 1960. The decline in market share from 90% to 60% reflects a combination of increased import penetration and an increased share of production by foreign multinationals in the US. If economic exceptionalism meant winning a gold medal in the auto manufacturing competition, based on the recent market share of US domestic sales, Toyota would take gold, and Ford and Nissan take silver and bronze. The rankings can also differ if we take into account input-output relations and international supply chains. In the case of U.S. automotive manufacturing, then U.S. Exceptionalism does not occur.

3. METHODOLOGY

The model used for U.S Exceptionalism analysis is the Vector Autoregression (VAR) model, using the Forecast Error Variance Decomposition (FEVD). The data used includes Indonesia's real GDP, the amount of money circulating M2 in the US, the MSCI Index, the US Bond Yield with a tenor of 10 years, and a dummy variable to describe the US exceptionalism period, where the value 1 is the period of exceptionalism, and zero is outside of exceptionalism. The data used is secondary data from 2018 – 2021, where 2020-2021 is the period of exceptionalism. The effect of exceptionalism on Indonesia's GDP growth is analyzed using the VAR model as follows:

$$\begin{bmatrix} DUMMY_t \\ DM2_US_t \\ DMSCI_US_t \\ DBOND_US_t \\ GDP_ID_t \end{bmatrix} = \begin{bmatrix} a_{11}(L) & a_{12}(L) & a_{13}(L) & a_{14}(L) & a_{15}(L) \\ a_{21}(L) & a_{22}(L) & a_{23}(L) & a_{24}(L) & a_{25}(L) \\ a_{31}(L) & a_{32}(L) & a_{33}(L) & a_{34}(L) & a_{35}(L) \\ a_{41}(L) & a_{42}(L) & a_{43}(L) & a_{44}(L) & a_{45}(L) \\ a_{51}(L) & a_{52}(L) & a_{53}(L) & a_{54}(L) & a_{55}(L) \end{bmatrix} \begin{bmatrix} DUMMY_t \\ DM2_US_t \\ DMSCI_US_t \\ DBOND_US_t \\ GDP_ID_t \end{bmatrix} + \begin{bmatrix} e_{1t} \\ e_{2t} \\ e_{3t} \\ e_{4t} \\ e_{5t} \end{bmatrix}$$

Before conducting data analysis with VAR, the data used must first be tested for stationarity using Augmented Dickey-Fuller (ADF). If the ADF t-statistic is greater than the critical values of 1%, 5%, and 10%, it can be stated that the data is stationary and vice versa. The second stage is to find the maximum and optimum lag of the VAR model. The maximum lag is obtained by using the Roots of Characteristic Polynomials. If the modulus that appears is less than one, then the selected lag is the maximum lag. The optimum lag is determined using the Lag Order Selection Criteria. The last step is to estimate the variance decomposition at the maximum and optimum lag.

Meanwhile, to determine the best period to enter the US financial market, analysis is carried out using the Moving Average Convergence Divergence (MACD). MACD (Moving Average Convergence/Divergence) is a trend-based momentum indicator that shows the average relationship between two moving prices. MACD was developed by Gerald Appel, publisher of Systems and Forecasts. MACD is calculated based on the difference between the 26-day and 12-day average price movements. A 9-day exponential moving average, called "signal" lines (or triggers) is plotted above the MACD to indicate buy/sell opportunities. MACD can also be used as an overbought/oversold indicator of an asset or financial instrument. When the short-term MA (12 days) is below the long-term MA (26 days), the prices of financial assets and instruments will likely return to their fair prices (Achelis, 2003). In this study, MACD is used to see opportunities created by U.S Exceptionalism for investors, to be able to find entry points into the US and Indonesian stock markets.

The calculation of the Moving Average Convergence/Divergence (MACD) can be done using the following formula: $Exponential\ Moving\ Average = \{(PxK) + (EMA_{t-1} \times 1 - K)\}$

P: Closing Price, K; Smoothing factors.

4. RESULT AND ANALYSIS

4.1 Descriptive Analysis of US Exceptionalism

Ramrattan & Stenberg (2019) state that U.S Exceptionalism can be analyzed through several economic variables such as money supply, bonds, and also the stock market, as well as economic growth.

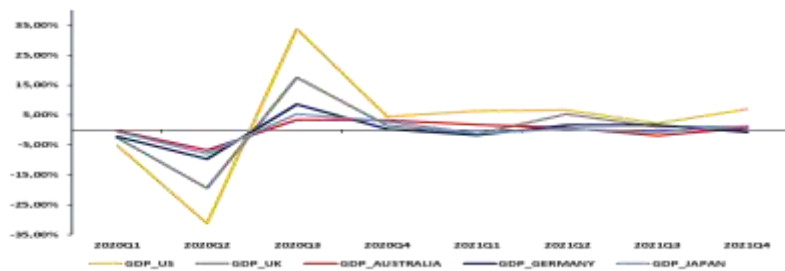


Figure 4.1 U.S Exceptionalism from GDP

Figure 4.1 shows the economic growth of 5 developed countries, namely the US, UK, Australia, Germany, and Japan amid the Covid-19 pandemic. US economic growth is in a higher position compared to several other developed countries. When Covid-19 first entered in 2020, the decline in economic growth in the United States was the deepest compared to other developed countries. However, when the vaccine was dispensed in the third quarter of 2020, a significant increase in US economic growth began to occur, although this also happened because it was caused by a low-based effect. When analyzed from the money supply (M2) side as shown in Figure 4.2, it can be seen that the growth of liquidity in the United States is higher than that of other developed countries.

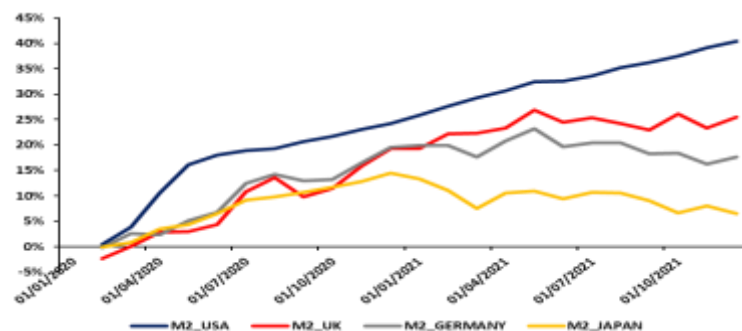


Figure 4.2 Money Supply Growth (M2)

M2 liquidity in the United States grew by 40% from the beginning of 2020. Meanwhile, other developed countries such as the UK, Germany, and Japan, grew by 26%, 18%, and 6% respectively. The condition of abundant liquidity in the United States can also be an indication of the phenomenon of U.S. Exceptionalism. The amount of liquidity does not cause a decrease in the value of the dollar. This is because the United States Dollar is still used as a world currency, so the demand for United States Dollars is still quite high. This abundant liquidity in the United States also influences the United States Stock Market movement. This study uses the MSCI Index to show the movement of large and medium-capitalized stock markets in several developed countries.

Figure 4.3 shows that the large and medium capitalization stock indexes in the United States at the end of the 2021 period have grown by 49.31% since 2020, and have touched an all-time high several times. The growth of the United States stock market indicates the existence of the U.S. Exceptionalism phenomenon because its growth is much higher when compared to other developed countries such as Japan, Germany, and Australia whose growth is respectively around 12.05%, 12.85%, and 11.15% at the end of 2021, even the UK stock market is still experiencing a correction of -1.34%.

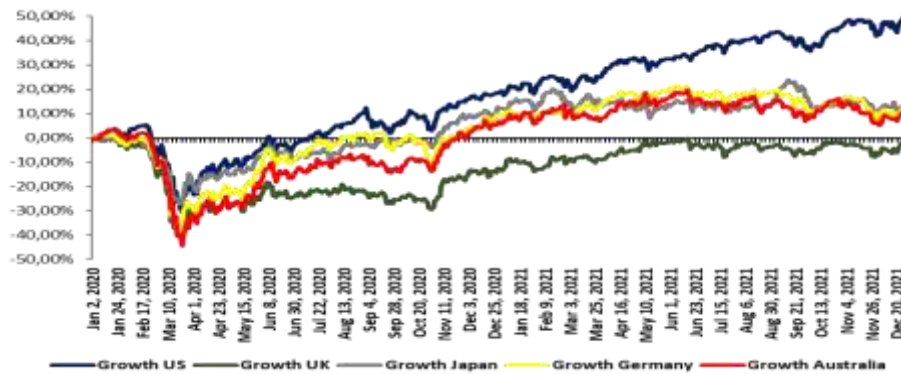


Figure 4.3 The Growth of the MSCI Index

Apart from the stock market, this study also discusses the movement of yields on US government bonds and several other developed countries. Figure 4.4 shows government bond yield changes in Germany, Japan, England, Australia, and America. The most significant change in bond yields daily occurred in Japanese government bond yields. Meanwhile, the most stable change in bond yields is the yield on the 10-year U.S. Treasury. This is due to the more favorable economic growth and growth of the US stock market which makes investors tend to invest in risky assets but generate higher returns such as stocks.

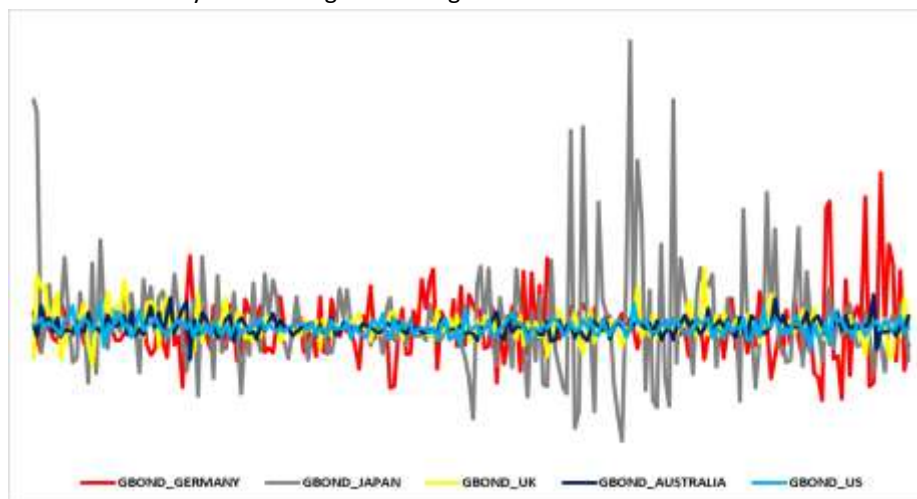


Figure 4.4. Bond Yields Volatility

Of the four variables analyzed, namely liquidity M2, stock index, Yield Bond, and MSCI Index, it can be stated that these variables from the US are relatively the largest in terms of magnitude compared to other developed countries. This confirms the occurrence of US Exceptionalism.

4.2 Implications of U.S Exceptionalism on Indonesia's Economic Growth

In this section, we will analyze the influence of US exceptionalism variables on Indonesia's economic growth. The analysis was performed using the VAR model. Previously, unit root testing has been carried out with the ADF test, and it is known that all variables are stationary in the first difference. Therefore VAR modeling is done using the 1st differences variable. Then testing the lag length criteria and the Lag Order Selection Criteria are also carried out, to determine the maximum and optimal lag. Based on these tests, it is obtained that the maximum lag that maintains the stability of the model is lag 4. Therefore, an analysis of variance decomposition is carried out on this lag. In addition to the M2 variables, the MSCI Index, and bond yields, a dummy variable is also used to capture the impact of the Covid pandemic on Indonesia's GDP. In addition, multiple regression equations will also be used, to see the direction of the relationship between the US exceptionalism proxy variable to changes in GDP in Indonesia.

Table 4.1 Variance decomposition of Indonesia's GDP

Variance Decomposition of GDP_ID:						
Period	S.E.	DUMMY	DMSCI_US	DM2_US	DBOND_US	GDP_ID
1	0.002757	19.10256	0.117429	0.560709	4.674240	75.54506
2	0.008276	16.58142	0.116890	0.739970	7.111104	75.45062
3	0.014948	19.40140	0.788717	1.301811	9.548641	68.95943
4	0.020405	22.97205	3.342257	2.340123	11.94159	59.40398
5	0.023416	24.63352	9.580504	3.577870	12.26293	49.94517
6	0.025003	22.63375	18.46160	4.113216	10.90533	43.88611
7	0.026591	21.07423	23.00861	3.639453	10.17209	42.10562
8	0.028510	24.18242	20.95743	4.006748	9.731351	41.12206
9	0.030589	28.45862	18.95075	5.288577	8.779872	38.52218
10	0.032453	30.25235	20.70660	5.871755	7.855040	35.31426
11	0.033596	30.30187	23.32240	5.729396	7.386179	33.26016
12	0.034007	30.13008	24.32683	5.597228	7.411605	32.53426
Cholesky Ordering: DUMMY DMSCI_US DM2_US DBOND_US GDP_ID						

Tabel 4.2 US Exceptionalism Proxy Variable Relationship to Economic Growth in Indonesia

Dependent Variable: GDP_ID				
Method: Least Squares				
Date: 02/21/22 Time: 10:34				
Sample (adjusted): 2018M06 2021M12				
Included observations: 43 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.055599	0.975158	0.057016	0.9549
LOG(M2_US)	-0.199981	0.121232	-1.649569	0.1080
LOG(MSCI_US)	-0.085302	0.142902	-0.596925	0.5544
LOG(MSCI_US(-1))	0.319572	0.140837	2.269091	0.0295
BOND_US	6.936160	2.323506	2.985213	0.0051
BOND_US(-1)	-5.938762	2.462481	-2.411698	0.0213
DUMMY	0.021651	0.025534	0.847903	0.4023
DUMMY(-1)	-0.050474	0.026366	-1.914378	0.0638
R-squared	0.464545	Mean dependent var		0.008603
Adjusted R-squared	0.357454	S.D. dependent var		0.027142
S.E. of regression	0.021757	Akaike info criterion		-4.651564
Sum squared resid	0.016567	Schwarz criterion		-4.323898
Log likelihood	108.0086	Hannan-Quinn criter.		-4.530731
F-statistic	4.337854	Durbin-Watson stat		0.882178
Prob(F-statistic)	0.001504			

Based on Tables 4.1 and 4.2 it is known that during the covid pandemic, the dummy covid variable contributed the most to changes in Indonesia's GDP, which was 30.13%. The pandemic has become the main factor in weakening economic activity due to the lockdown so the national output has decreased. Then, based on the regression results, it was found that the coefficient of the dummy variable was negative. This means that when the U.S. exceptionalism phenomenon occurs, economic growth will slow down. This is due to a large number of rotations of foreign liquidity from emerging countries which in this study is Indonesia, returning to the United States because from the point of view of financial markets and economic growth it is more attractive with lower risks.

The second variable that has the greatest contribution to Indonesia's economic growth is the change in MSCI_US which is a proxy for the US stock market index, with a contribution of 24.33%. We can also see the relationship between the movement of the United States stock index (Log(DMSCI_US)) and Indonesia's economic growth (GDP_ID), where the variables have a significant negative relationship. This means that when the US stock market index strengthens, Indonesia's economic growth will weaken. This was caused by a shift in liquidity from the Indonesian financial market to the US stock market. The liquidity should be used to boost Indonesia's economic growth. The same thing happened to the money supply variable (Log(DM2_US)), where this variable has a negative relationship to Indonesia's economic growth (GDP_ID). The results of the interpretation are more or less the same as the DMSCI_US variable, where liquidity that should enter Indonesia and drive Indonesia's economic growth, moves to the United States (no rotation from the United States liquidity to Indonesia). The contribution of the DM2_US variable itself to Indonesia's economic growth is

approximately 5.59%. The next variable is DBOND_US which is a proxy for the movement of yields on United States government bonds (U.S Treasury) and has a positive relationship with Indonesia's economic growth. Yield bonds can reflect the potential risks that will come. The higher the bond yield (the lower the bond price), the higher the risk potential. Government bonds are also strong indicators that reflect investor confidence in the government. When the US bond yields increased, this led to a relocation of financial resources away from the US and looking for new destinations in emerging markets, including Indonesia. The existence of capital inflows in the form of bonds will increase government funding sources for development so that economic growth increases. However, based on the decomposition variance, it can be seen that the contribution of the DBOND_US variable to Indonesia's economic growth is only 7.41%.

4.3 United States and Indonesia Stock Market Momentum Technical Analysis

To see the momentum for investors to enter the US and Indonesian stock markets, this study uses technical analysis, namely the Moving Average Convergence/Divergence (MACD). This method is an indicator to see momentum based on the trend of the relationship between the average of two moving stock prices/indices. MACD calculates the difference between a 26-day and 12-day price moving average. Then the 9-day exponential moving average is used to form a signal line that will be plotted together with the MACD line, so investors can get information about buying and selling momentum. Based on the MMCD method, our first step is to calculate the average closing price for 12 days and substitute it into the MACD formula, to obtain the following results:

$$EMA\ 12\ days = \left(437,55 \times \left(\frac{2}{12+1} \right) \right) + 426,71 \times \left(1 - \left(\frac{2}{12+1} \right) \right)$$

Table 4.3 EMA 12 Days

Date	Last Price	12 Period EMA
01/02/2021	416.25	
02/02/2021	425.13	
03/02/2021	416.87	
04/02/2021	430.19	
05/02/2021	429.81	
08/02/2021	422.73	
09/02/2021	417.97	
10/02/2021	419.66	
11/02/2021	426.86	
12/02/2021	434.77	
16/02/2021	440.92	
17/02/2021	439.32	426.706667
18/02/2021	437.55	428.3748718

The 12-day EMA result at the closing price of February 18, 2021 was 428.37. The next stage is to calculate the 26-day EMA and substitute it into the EMA formula and the result is 420.50. The third stage is to calculate the Moving Average Convergence/Divergence (MACD) by subtracting the 12-day EMA and 26-day EMA. The final stage is finding the signal line which is calculated using the 9-day EMA formula. After the 9-Day EMA and MACD data have found their value, then the two data are plotted onto a curve with the following results:

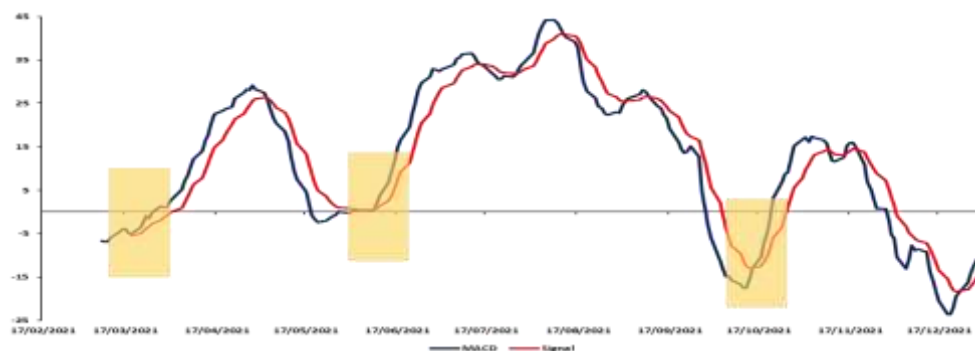


Figure 4.5 Indikator Moving Average Convergence/Divergence (MACD)

Figure 4.5 shows the MACD indicator, where when the MACD line crosses below the signal line, this indicates a momentum to sell. Meanwhile, if the MACD line intersects above the signal line, this indicates momentum to buy or an entry point. From the MACD chart, we get information that there is approximately three buying momentum, especially in March 2021, June 2021, and October 2021. This period coincides with the occurrence of the U.S Exceptionalism phenomenon throughout 2021, namely when the Covid-19 pandemic is occurring and vaccinations have begun to be distributed. By taking advantage of this momentum, market participants or investors can take positions in investment instruments that have exposure to the United States stock market, such as the Offshore USD Equity Mutual Fund.

5. Conclusion

This study analyzes three things, namely whether the phenomenon of U.S Exceptionalism occurred especially during the Covid-19 pandemic, then how the variables representing U.S Exceptionalism have implications for Indonesia's economic growth, and lastly, this study wants to see the momentum that can be utilized by market players to enter the US stock market. The research results show that:

1. The phenomenon of U.S Exceptionalism is true, where when Covid-19 hit the whole world, the United States became the country with the fastest economic growth compared to several other developed countries. In terms of liquidity, the United States also has the fastest M2 growth and in terms of the stock market, the growth of the US stock market is more favorable than the stock markets of other developed countries. And finally, from the government bond yield side, the movement in United States government bond yields is not as volatile as other countries.
2. This study also looks at the contribution of the variables representing U.S Exceptionalism to Indonesia's economic growth, in which the movement of the United States stock market index (DMSCI_US) contributes the most compared to other variables, namely 24.33%, United States liquidity (DM2_US) contributed 5.60%, and the movement in yields on United States government bonds (DBOND_US) was 7.41%. The U.S Exceptionalism phenomenon that occurred throughout 2021 as measured by the dummy covid also contributed 30.13% to Indonesia's economic growth, meaning that the covid pandemic that occurred in America in particular, had a negative contribution and influence on Indonesia's economic growth.
3. Market participants can take advantage of the U.S Exceptionalism phenomenon that occurred throughout 2021 to enter the United States stock market, where in that year, approximately three momentums were found that could be used as entry points by market participants/investors in March 2021, June 2021, and October 2021.

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How to cite this article: **Nuning Trihadmini, Reginald Suryanto, Analysis of The U.S Exceptionalism Phenomenon, Stock Market Investment Momentum, and Its Implications on Indonesia's Economic Growth**, Asian. Jour. Social. Scie. Mgmt. Tech.2022; 4(6): 83-92.