P-ISSN : 2477-6092
E-ISSN : 2620-3391
ECOBISMA
Jurnal Ekonomi, Bisnis dan Manajemen
ECOBISMA
(Jurnal Ekonomi, Bisnis dan Manajemen)
Published by LPPM Universitas Labuhanbatu

Impact of Macroeconomic Variables and Global Stock Indices on The Indonesian Composite Index (IHSG): 2017–2023

[1]Anggrainy Putri Ayuningrum*, [2]M. Zuyyin Alifiadin, [3]Muhammad Maulidin Fachrur, [4]Meliza, [5]M. Nuskan Abdi, [6]Fitri Amalinda Harahap

[1,2,3,4,5]Faculty of Economic and Business, Universitas Pekalongan, Indonesia
[6]Faculty of Economic and Business, Universitas Jendral Soedirman
*Email:*anggrainy.putri20@gmail.com

ARTICLE INFO

Keywords:
IHSG,
Inflation,
Interest rate,
Exchange rate,
Hang Seng Index,
Nikkei 225 Index

ABSTRACT

PURPOSE - This study analyzes the influence of macroeconomic variables and global stock indices on the IHSG during 2017–2023. The research is motivated by IHSG fluctuations amid changes in inflation, interest rates, exchange rates, and global market dynamics, reflecting investor responses to both domestic and international economic conditions. Prior studies have produced inconsistent results, highlighting the need for further investigation.

METHODOLOGY - This research applies a quantitative approach using secondary monthly data from January 2017 to December 2023, totaling 84 observations. The independent variables consist of inflation, interest rates, exchange rates, the Hang Seng Index, and the Nikkei 225 Index, while the IHSG serves as the dependent variable. Data analysis includes classical assumption tests, multiple linear regression, model feasibility testing, and partial hypothesis testing using the t-test.

FINDING - The findings reveal that inflation and the Nikkei 225 Index have a positive and significant effect on the IHSG, whereas the exchange rate has a negative and significant impact. Interest rates and the Hang Seng Index show positive and negative relationships, respectively, but are not statistically significant. These results suggest that domestic price stability and Japan's economic conditions significantly influence the Indonesian stock market, while exchange rate volatility tends to weaken IHSG performance.

Received 01 January 2026; Received in revised from 19 February 2026; Accepted 18 May 2026
ECOBISMA (Jurnal Ekonomi, Bisnis dan Manajemen) Volume 13 No. 2 (2026)

Available online 26 June 2026
DOI: https://doi.org/10.36987/ecobi.v%vi%i.8567

INTRODUCTION

Background

Stock market investment is inherently associated with price fluctuations arising from changes in supply and demand. In Indonesia, overall stock price movements are represented by the Composite Stock Price Index (Indeks Harga Saham Gabungan or IHSG), which serves as a

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key indicator of capital market performance and economic conditions (Gojali, Juniwati, & Pratiwi, 2021). Fluctuations in the IHSG influence investor behavior and investment decisions, as they shape market expectations and risk perceptions.

Stock price movements are closely related to macroeconomic conditions. Changes in inflation, interest rates, and exchange rates may affect investor confidence and alter capital allocation in the stock market, thereby influencing IHSG performance (Mahirun, 2024). In addition to domestic factors, increasing financial integration and technological advancement have enabled investors to access global market information in real time. Movements in major global stock indices are therefore considered relevant signals that may influence domestic stock markets alongside internal macroeconomic conditions (Kananda et al., 2020).

Empirical observations during the 2017–2023 period indicate that movements in the IHSG do not always follow changes in macroeconomic variables in a linear manner. For instance, periods of rising inflation and interest rates were accompanied by increasing IHSG values, suggesting that investor responses to macroeconomic signals may vary across economic conditions (Slaihin, 2021; Khair et al., 2024). These dynamics highlight the complexity of IHSG movements and underscore the importance of examining the combined influence of macroeconomic variables and global stock indices on stock market performance.

Table 1. Presents Annual Average Macroeconomic Indicators And Year-End IHSG Closing Prices During The Study Period

Years	Inflation	Interest Rate	Excange Rate	Price IHSG
2017	3,81%	4,56%	Rp. 13.384	6.355
2018	3,20%	5,09%	Rp. 14.346	6.194
2019	3,03%	5,63%	Rp. 14.146	6.299
2020	2,04%	4,25%	Rp. 14. 572	5.979
2021	2,73%	3,52%	Rp. 14.311	6.581
2022	3,68%	4,00%	Rp. 14.870	6.850
2023	3,34%	5,81%	Rp. 15.255	7.272

Source: BEI, 2017-2023

The Problem

Although numerous studies have examined the relationship between macroeconomic variables and stock market performance, empirical evidence regarding their effects on the IHSG remains inconclusive. Previous research reports inconsistent findings on the direction and significance of the influence of inflation, interest rates, and exchange rates on the IHSG. Some studies document positive and significant effects, while others report negative or insignificant relationships.

Similar inconsistencies are also found in studies examining the impact of global stock indices on the IHSG. While several studies suggest that international stock indices such as the Hang Seng Index and the Nikkei 225 Index significantly influence the IHSG, other studies report opposite or insignificant results. These mixed findings indicate that the transmission of macroeconomic and global market signals to the Indonesian stock market is neither uniform nor stable across periods.

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E-ISSN : 2620-3391
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Moreover, limited studies comprehensively analyze the simultaneous effect of domestic macroeconomic variables and selected global stock indices on the IHSG over a recent and extended period. As a result, there is still insufficient empirical evidence explaining how these factors jointly shape IHSG movements in the context of evolving global financial integration.

The Proposed Solution

To address these research gaps, this study investigates the effect of inflation, interest rates, exchange rates, and selected global stock indices on the IHSG during the 2017–2023 period. By integrating domestic macroeconomic indicators and global stock market indices within a single empirical framework, this study provides a more comprehensive analysis of the determinants of IHSG movements.

This research contributes to the existing literature by clarifying the mixed empirical findings reported in previous studies (Anggraeni, 2022; Gojali et al., 2021; Khair, Yeni, & Wijaya, 2024; Monica & Munandar, 2024; Kananda et al., 2020) and by offering updated evidence from an emerging market perspective. The findings are expected to provide practical insights for investors in interpreting macroeconomic and global market signals, as well as for policymakers in maintaining capital market stability amid increasing global financial interconnectedness.

LITERATURE REVIEW

Signaling Theory

Signaling theory, introduced by Spence (1973), explains how information asymmetry between information holders and information receivers can influence decision-making processes. In the context of capital markets, signals are conveyed through information that reflects economic conditions, firm performance, or market dynamics. Investors interpret these signals based on their expectations and understanding, which subsequently affects their investment behavior.

According to Iman, Mawardi, and Sarker (2020), signals in the form of positive or negative information significantly influence investor confidence and investment decisions. Positive signals tend to generate favorable market reactions and may increase stock prices and market indices, whereas negative signals often lead to adverse market responses. Khair, Yeni, and Wijaya (2024) further emphasize that market participants possessing superior information can transmit signals that shape investor perceptions in financial markets.

Within this framework, macroeconomic variables and global stock indices can be interpreted as external signals that provide information about economic stability and future prospects. Changes in inflation, interest rates, exchange rates, and global stock market performance serve as signals that collectively influence investor sentiment and the movement of the IHSG.

Inflation and IHSG

Inflation plays a crucial role in shaping investment decisions and stock market performance. Rising inflation reduces investors' real income and purchasing power, leading many investors to delay or withdraw investments until inflationary pressures subside (Slaihin, 2021). Increasing prices of goods and services may also dampen economic activity, reducing corporate profitability and weakening investor interest in the stock market, which can exert downward pressure on the IHSG.

Empirical evidence regarding the relationship between inflation and the IHSG remains mixed. Hasnawi et al. (2023), Setiawan and Mulyani (2020), and Slaihin (2021) find that inflation

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E-ISSN : 2620-3391
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has a negative and significant effect on the IHSG. These findings support the view that inflation represents a negative economic signal that discourages stock market investment.

Based on these theoretical arguments and empirical findings, the following hypothesis is proposed:

H1: Inflation has a negative and significant effect on the Composite Stock Price Index (IHSG).

Interest Rates and IHSG

Interest rates influence investor portfolio allocation by determining the relative attractiveness of financial instruments. High interest rates encourage investors to allocate funds to low-risk instruments such as deposits, which offer stable returns without exposure to stock price volatility. As capital flows shift toward the banking sector, investment in the stock market declines, potentially reducing demand for shares and lowering the IHSG. Conversely, lower interest rates reduce the attractiveness of deposits, prompting investors to seek higher returns through stock market investment (Waryati & Solaiman, 2022). Several empirical studies support a negative relationship between interest rates and the IHSG. Melyani and Esra (2021), Khair, Yeni, and Wijaya (2024), Kananda, Komalasari, and Tubarad (2020), as well as Waryati and Solaiman (2022), report that interest rates have a negative and significant effect on the IHSG. Based on prior research findings, the following hypothesis is formulated:

H2: Interest rates have a negative and significant effect on the Composite Stock Price Index (IHSG).

Exchange Rates and IHSG

Exchange rate movements affect corporate performance, particularly for firms engaged in international trade. Currency appreciation increases export prices and reduces import costs, while depreciation has the opposite effect. Exchange rates also reflect macroeconomic stability and are a key consideration for foreign investors when allocating capital in emerging markets. A stable or appreciating currency reduces long-term investment risk and supports capital inflows (Monica & Munandar, 2024). Empirical studies indicate a positive relationship between exchange rates and the IHSG. Khair, Yeni, and Wijaya (2024), Monica and Munandar (2024), and Waryati and Solaiman (2022) find that exchange rate appreciation positively and significantly affects the IHSG. These findings suggest that exchange rate stability serves as a positive signal for investors. Accordingly, the following hypothesis is proposed:

H3: Exchange rates have a positive and significant effect on the Composite Stock Price Index (IHSG).

Hang Seng Index and IHSG

China plays a significant role in Indonesia's economy, particularly in trade and capital flows. As one of Indonesia's major trading partners, economic stability in China may positively affect the performance of Indonesian firms. The Hang Seng Index, which reflects stock market conditions in Hong Kong and China, serves as an important indicator of China's economic performance and investor sentiment. Increased capital inflows from China and improved economic conditions may enhance firm performance in Indonesia, thereby influencing the IHSG. Empirical studies by Slaihin (2021), Setiawan and Mulyani (2020), and Setyawan, Rorlen, and Ekadjaja (2021) find that the Hang Seng Index has a positive and significant effect on the IHSG. Based on these findings, the following hypothesis is formulated:

H4: The Hang Seng Index has a positive and significant effect on the Composite Stock Price Index (IHSG).

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Nikkei 225 Index and IHSG

Japan is one of the most advanced economies in Asia and a key trading partner of Indonesia. Many companies included in the Nikkei 225 Index operate globally, including in Indonesia. Economic growth in Japan can stimulate Indonesian exports and increase capital inflows into the Indonesian capital market, thereby influencing the IHSG. Previous studies indicate a positive relationship between the Nikkei 225 Index and the IHSG. Setyawan, Rorlen, and Ekadjaja (2021), I. Darmawan et al. (2020), and S. Darmawan and Haq (2022) find that the Nikkei 225 Index has a positive and significant effect on the IHSG. Based on these empirical findings, the final hypothesis is proposed:

H5: The Nikkei 225 Index has a positive and significant effect on the Composite Stock Price Index (IHSG).

METHODOLOGY

Research Design

This study employs a quantitative research design with an explanatory approach. Quantitative research is appropriate for examining relationships among variables using numerical data and statistical analysis. The explanatory design is chosen to identify and measure the effect of macroeconomic variables and global stock indices on the Composite Stock Price Index (IHSG). This approach enables the study to test hypotheses derived from theoretical and empirical literature and to provide objective evidence regarding causal relationships among variables.

Participant

The unit of analysis in this study is the Indonesian capital market, represented by the Composite Stock Price Index (IHSG). The population consists of monthly IHSG data recorded on the Indonesia Stock Exchange during the period January 2017 to December 2023. Based on this period, a total of 84 monthly observations are included in the analysis. The use of this time frame allows the study to capture variations in macroeconomic conditions and global market dynamics over a relatively extended period.

Data Collection

This study utilizes secondary data obtained from official and reliable sources. Data on inflation, interest rates, and exchange rates are collected from publications issued by Bank Indonesia and the Central Bureau of Statistics. IHSG data are obtained from the Indonesia Stock Exchange, while data on global stock indices, including the Hang Seng Index and the Nikkei 225 Index, are sourced from international financial databases. Secondary data are selected to ensure data accuracy, consistency, and relevance to the research objectives.

Instrument

The research instrument consists of documented numerical data representing macroeconomic indicators and stock market indices. Inflation is measured using the consumer price index (CPI)-based inflation rate, interest rates are proxied by the policy interest rate, and exchange rates are measured using the rupiah to US dollar exchange rate. The IHSG, Hang Seng Index, and Nikkei 225 Index are measured using monthly closing prices. All variables are measured on a ratio scale, allowing for statistical analysis using regression techniques.

Data Analysis

Data analysis is conducted using multiple linear regression analysis to examine the effect of inflation, interest rates, exchange rates, and global stock indices on the IHSG. Prior to

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hypothesis testing, classical assumption tests are performed to ensure the validity of the regression model, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Statistical analysis is carried out using appropriate econometric software, and hypothesis testing is conducted at a 5% significance level.

RESULTS AND DISCUSSION

The results of the classical assumption tests in this study are as follows:

Table 2. Normality Test (One-Sample Kolmogorov-Smirnov)

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		84
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	10.92161840
Most Extreme Differences	Absolute	.063
	Positive	.063
	Negative	-.053
Kolmogorov-Smirnov Z		.576
Asymp. Sig. (2-tailed)		.894
a. Test distribution is Normal.		
b. Calculated from data.		

Source: Data analyzed by SPSS

Table 2 shows that the Asymp. Sig. value is 0.894, which is greater than 0.05. This result indicates that the residuals are normally distributed, confirming that the regression model satisfies the normality assumption.

Table 3. Heteroscedasticity Test (Glejser Test)

Coefficients[a]						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	-.788	19.050		-.041	.967
	Inflation	-.877	.610	-.192	-1.436	.155
	Interest Rate	-.006	.027	-.035	-.230	.819
	Exchange Rate	.001	.001	.091	.549	.584
	Hang Seng Index	.035	.053	.123	.664	.509
	Nikkei 225 Index	.015	.060	.039	.246	.806
a. Dependent Variable: ABS_RES_1						

Source : Data analyzed by SPSS

As presented in Table 3, all independent variables have significance values above 0.05.

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This finding indicates that the regression model does not exhibit heteroscedasticity and fulfills the assumption of homoscedasticity.

Table 4. Multicollinearity Test

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Inflation	.665	1.504
	Interest Rate	.516	1.940
	Exchange Rate	.394	2.539
	Hang Seng Index	.285	3.507
	Nikkei 225 Index	.415	2.407
a. Dependent Variable: IHSG			
Source : Data analyzed by SPSS			

Table 4 demonstrates that all tolerance values exceed 0.10 and all VIF values are below 10. Therefore, multicollinearity is not present in the regression model.

Table 5. Autocorrelation Test (Durbin–Watson)

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.573[a]	.328	.285	11.26627	2.062
a. Predictors: (Constant), Nikkei 225 Index, Exchange Rate, Inflations, Interest Rate, Hang Seng Index					
b. Dependent Variable: IHSG					
Source : Data analyzed by SPSS					

The Durbin–Watson value of 2.062 lies between the upper bound (dU) and (4 − dU), indicating that the regression model is free from autocorrelation.

Table 6. Coefficient of Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.573[a]	.328	.285	11.26627
a. Predictors: (Constant), Nikkei 225 Index, Exchange Rate, Inflation, Interest Rate, Hang Seng Index				
Source : Data analyzed by SPSS				

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Table 6 indicates that the independent variables explain 32.8% of the variation in the Composite Stock Price Index (IHSG), while the remaining 67.2% is explained by other variables outside the model.

Table 7. Multiple Linear Regression Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	118.104	43.010		2.746	.007
	Inflation	3.152	1.321	.272	2.385	.019
	Interest Rate	.029	.058	.066	.511	.611
	Exchange Rate	-.009	.003	-.440	-2.976	.004
	Hang Seng Index	-.136	.134	-.177	-1.016	.313
	Nikkei 225 Index	.501	.139	.520	3.608	.001

a. Dependent Variable: IHSG

Source: Data analyzed by SPSS

Table 7 presents the results of the multiple linear regression analysis examining the effects of macroeconomic variables and global stock indices on the Indonesian Composite Index (IHSG). Based on the regression output, the estimated regression equation is formulated as follows:

$$IHSG = 0.272\ Inflation + 0.066\ InterestRate - 0.440\ ExchangeRate - 0.177\ HangSeng + 0.520\ Nikkei225 + \varepsilon$$

The regression coefficients indicate that inflation and the Nikkei 225 Index have positive effects on IHSG, while the exchange rate and the Hang Seng Index show negative coefficients. Interest rates exhibit a positive coefficient but with a relatively small magnitude. Furthermore, the t-test results show that inflation (p = 0.019), exchange rate (p = 0.004), and Nikkei 225 Index (p = 0.001) significantly affect IHSG, whereas interest rates and the Hang Seng Index do not demonstrate statistically significant effects.

DISCUSSIONS

This study finds that inflation has a positive and significant effect on IHSG. This result suggests that during the observation period, inflation was perceived by investors as an indicator of economic growth rather than macroeconomic instability. Inflation has a positive and significant impact on LQ45 stocks because rising inflation can boost expectations of corporate earnings, encourage investors to choose stocks as a hedge against asset devaluation, and demonstrate that LQ45 companies are well-equipped to adapt to changes in macroeconomic conditions. Thus, inflation is one of the economic factors that investors should consider when making investment decisions regarding LQ45 stocks (Satoto, 2024). This finding in line with the results of Anggraeni (2022) and Gojali et al. (2021).

The Effect of Interest Rates on the IHSG have positive and not significant. According to

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E-ISSN : 2620-3391
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Signal Theory, changes in interest rates announced by monetary authorities should provide important signals regarding the direction of macroeconomic policy and expectations for future economic conditions. However, in the context of the Indonesian stock market, these signals do not appear to be strong enough or are not significantly picked up by investors. This may be due to various factors, such as investors' reliance on global indicators, the dominance of external factors like movements in global stock indices and exchange rates, as well as uncertainty in interpreting the direction of long-term monetary policy. Thus, although in theory interest rates play a crucial role in shaping market expectations, in practice the impact of interest rate policy on the IHSG during the 2017–2023 period appears limited and has not been the primary driver of dynamics in the Indonesian stock market. The findings of this study are consistent with those of a study conducted by Haholongan and Diana (2021) and (Monica and Munandar 2024).

The exchange rate demonstrates a negative and significant relationship with IHSG, indicating that rupiah depreciation increases uncertainty and reduces investor confidence. From the perspective of signaling theory, changes in exchange rates can serve as signals or indicators for investors to gauge the direction and economic conditions of a country. A weakening rupiah can increase import costs and reduce purchasing power, which puts pressure on the performance of domestic companies, particularly those that rely on imported raw materials. The depreciation of the rupiah is viewed as a negative signal because it may indicate economic strain. The result in line with the findings of Ningsih et al. (2024) and Anggraeni (2022).

Hang Seng Index and the IHSG. The results of the analysis indicate that the Hang Seng Index has a negative but insignificant effect on the IHSG. According to signal theory, information from foreign stock markets can provide important clues for domestic investors in making investment decisions. The Hang Seng Index, as the primary indicator of the Hong Kong stock market, should serve as a source of signals reflecting economic and market conditions in East Asia. In theory, significant changes in the Hang Seng Index could influence investor expectations regarding investment risks and opportunities in the region, including in Indonesia. However, between 2017 and 2023, movements in the Hang Seng Index did not appear to have a significant impact on the IHSG. This lack of correlation between the IHSG and the Hang Seng Index can be explained by several factors. First, differences in the economic structures of Indonesia and Hong Kong mean that market dynamics in Hong Kong do not always have a direct impact on the Indonesian market. Second, differences in the fundamental conditions of the two countries' capital markets—such as investor profiles and major industries—also mean that signals from the Hang Seng Index are less effectively received by domestic investors. The result in line with (Anwar and Animah 2023) and (Al-Hakim 2020).

The Nikkei 225 Index shows a strong positive influence on IHSG, reflecting the close economic and financial linkages between Japan and Indonesia The interdependence between Japan and Indonesia is evident in the economy, particularly in terms of exports and imports. From the perspective of signaling theory, which posits that information originating from a country's financial markets can serve as a signal for global investors in making investment decisions. In this context, the positive movement of the Nikkei 225 Index signals optimism regarding market conditions in the Asian region, including Indonesia, thereby boosting investor confidence and driving an increase in the IHSG. Additionally, Japan's economic recovery can also encourage capital inflows into the Indonesian capital market, both in the form of foreign portfolio investments and direct investments, which will ultimately strengthen the performance of the Indonesian stock market. This finding is consistent with previous studies by Darmawan et al. (2020) and (Komariah and Ramadhan 2022).

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E-ISSN : 2620-3391
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CONCLUSION

This study examines the effects of macroeconomic variables and global stock indices on the Indonesian Composite Index (IHSG) over the period 2017–2023 using 84 monthly observations. The empirical results indicate that inflation and the Nikkei 225 Index have positive and significant effects on IHSG, while the exchange rate exerts a negative and significant influence. In contrast, interest rates and the Hang Seng Index do not show statistically significant effects on IHSG during the observation period. These findings suggest that IHSG movements are more sensitive to certain macroeconomic indicators and specific global market signals rather than responding uniformly to all external factors.

From a practical perspective, the results imply that domestic inflation, when remaining within a manageable range, may be perceived by investors as a signal of economic expansion and increased purchasing power, thereby supporting stock market performance. The significant positive influence of the Nikkei 225 Index highlights the strong economic and financial linkages between Japan and Indonesia, particularly through trade and investment channels. Conversely, the negative impact of exchange rate depreciation reflects heightened investor concern regarding currency risk and capital outflows. Meanwhile, the insignificant effects of interest rates and the Hang Seng Index indicate that these variables provided relatively weak signals to the Indonesian stock market during the study period.

Future research is encouraged to focus on specific crisis periods, such as the COVID-19 pandemic, to better understand how extreme economic conditions alter the relationship between macroeconomic variables, global indices, and IHSG. In addition, incorporating a broader range of global stock indices may provide a more comprehensive view of international market spillovers. The use of higher-frequency data, such as daily observations, is also recommended to capture short-term market fluctuations more accurately and to reflect real-time market dynamics.

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