Universitas Ahmad Dahlan

Jurnal Fokus Manajemen Bisnis
Volume 15, Number 1, March 2025, Page 70-83
https://doi.org/10.12928/fokus.v15i1.12110
http://journal2.uad.ac.id/index.php/fokus
P-ISSN: 2088-4079 E-ISSN: 2716-0521

The dynamics of composite stock price index market: A review of key economic factors

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ARTICLE INFORMATION

Article History
Received: 02-12-2024
Revised: 10-02-2025
Accepted: 12-02-2025

Keywords
Dow Jones Index;
Interest Rates;
Inflation;
Exchange Rate;
Composite Stock Price Index.

ABSTRACT

The capital market plays a pivotal role as a platform for both individuals and financial institutions to invest. This research aims to investigate how various factors, including the Dow Jones Index, interest rates, inflation, and the exchange rate of the Rupiah, influence the performance of the Composite Stock Price Index from 2018 to 2022. The study employs a non-probability Sampling technique, specifically purposive sampling, with 60 samples selected for analysis. A quantitative research design is applied, focusing on the aforementioned variables, and employing a saturated sampling approach. The data is analyzed through multiple linear regression using Eviews. These findings suggest that, of the research hypotheses developed, only one is accepted, inflation has a positive influence on Composite Stock Price Index. Then, in contrast to the hypothesis development, which is pointing in a positive direction, the Dow Jones Index has a positive influence on Composite Stock Price Index, but no significant. Interest rates and exchange rates have no positive effect on Composite Stock Price Index. Despite this, the importance of the other factors remains significant, as they are essential for understanding the behavior of the Indonesian stock market. The research emphasizes the need for a holistic approach to forecasting or analyzing stock market trends.

1. Introduction

The capital market is the primary platform for individuals and financial institutions to invest in. The dynamics and trends of capital markets are of key interest to both academics and financial practitioners (Irejeh et al., 2024). They closely monitor changes in the capital market, both in terms of stock price movements and the economic and financial factors that influence them. Analyzing capital market dynamics is crucial for helping investors make informed investment decisions and anticipate potential risks. With a solid understanding of market trends and dynamics, individuals and financial institutions can plan more effective investment strategies that have the potential to yield optimal results (Deng et al., 2023).

The government has taken various measures to mitigate these negative impacts, including raising interest rates, adjusting fuel prices, and controlling the flow of foreign

currencies (Hasanudin, 2023). The capital market plays a crucial role in Indonesia's economy, with the Composite Stock Price Index (CSPI) serving as the primary indicator of the country's economic status. For instance, raising interest rates can help control inflation and manage excessive economic growth, thereby strengthening national economic fundamentals. Additionally, controlling the flow of foreign currencies is essential to maintaining stability, which could negatively impact the domestic economy. In this context, the CSPI is an important indicator that reflects market sentiment towards economic conditions and government policies. An increase in the CSPI can serve as a positive signal of the effectiveness of the government's actions in addressing the crisis's impact and reinforcing economic fundamentals (Schmidt, 2022). The latest information can significantly affect investor expectations (Hasanudin & Haryati, 2023; Kahar et al., 2023).

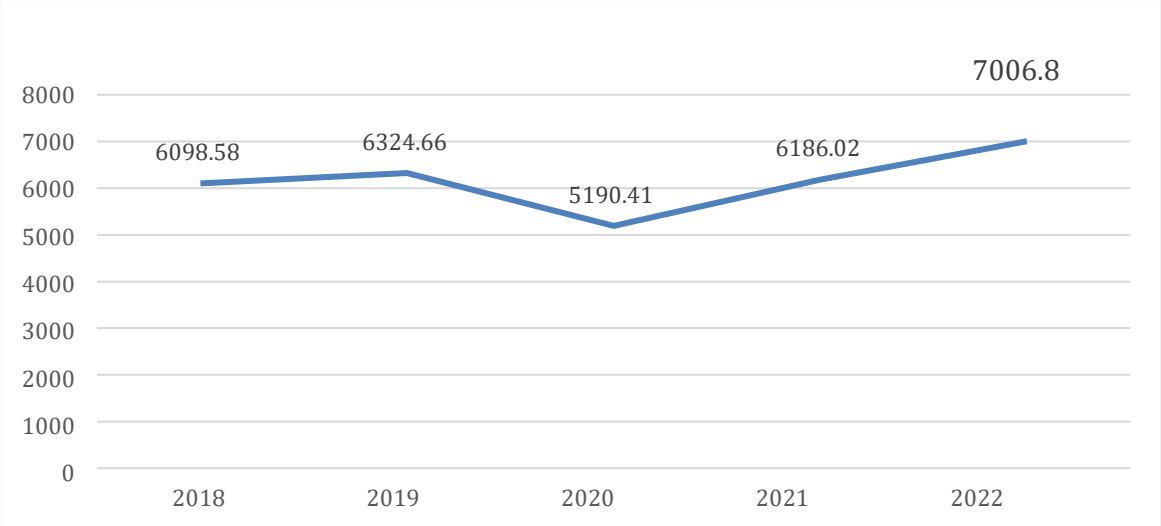

Figure 1. Movement of the Average Composite Stock Price Index
Source: CSPI Data for The Period 2018-2022

According to the data, the average CSPI changed from 2018 to 2022. In 2018, the CSPI reached 6,098.58, rising to 6,324.66 in 2019. However, it sharply declined to 5,190.41 in 2020 because of the impact of the COVID-19 pandemic. In 2021, the CSPI recovered to 6,186.02, and then saw a significant surge to 7,006.80 in 2022. This reflects substantial fluctuations in the CSPI's performance during this period, which was influenced by various external and internal factors, including global economic conditions, government policies, and market sentiment. Macroeconomic factors, such as interest rates, influence investment decisions. Low interest rates tend to encourage investment, whereas an unstable economic environment may lead to investment delays (Milligan, 2019).

By examining the interactions of these macroeconomic factors with the capital market, this study seeks to uncover the relationship between these variables and the movement of the CSPI. This analysis provides a clearer understanding of the factors influencing the CSPI during the specified period, offering valuable insights for investors and policymakers to make more informed decisions. The study highlights that, collectively, inflation, interest rates, and the exchange rate are crucial drivers of the CSPI's movements in the stock market (Pinem, 2019). Moreover, the research emphasizes that while the Dow Jones Index (DJI) does not significantly impact the CSPI and domestic factors. This underscores the importance of understanding local economic indicators and their direct influence on capital market performance. The findings also suggest that policymakers and investors should focus on

domestic factors when making decisions related to investments and economic forecasts (Odionye et al., 2024). In summary, this study contributes to a deeper understanding of the factors driving the CSPI's movements, offering valuable insights for market participants and researchers in financial economics. Despite substantial research on the impact of macroeconomic factors on stock markets, including the CSPI, there is still a gap in the literature regarding specific interactions (Schmidt, 2022; Hasanudin, 2023). This event caused significant disruptions in global markets, profoundly affecting both local and international economic landscapes.

While previous research has explored the broader macroeconomic factors impacting the capital market (Deng et al., 2023; Milligan, 2019), much of this work does not specifically assess the 2018-2022 period, a time marked by dramatic volatility and recovery. For example, the rapid fluctuation of the CSPI during this period, such as the sharp decline in 2020 and the subsequent recovery, has not been analyzed in depth in relation to specific economic indicators such as the DJI, exchange rate, or inflation. Additionally, there is a notable lack of in-depth analysis of how global economic conditions, as represented by the DJI, interact with domestic macroeconomic factors. Previous studies have typically examined these factors in isolation rather than exploring their combined effects on the market. This gap in the research is significant, as understanding the interplay between these variables is vital for both investors and policymakers, who must navigate an increasingly complex and volatile global market. By focusing specifically on the 2018-2022 period, this study aims to bridge this gap, offering a comprehensive analysis of how key macroeconomic variables, namely inflation, interest rates, the exchange rate, and the DJI, interact and impact the performance of the CSPI. This study offers more granular insights into the post-pandemic dynamics of the Indonesian capital market, providing valuable information to local investors and global financial analysts seeking to understand the complex factors that influence emerging markets in the face of global disruptions.

2. Literature Review and Hypothesis Development

2.1. Literature Review

2.1.1. Financial Management

Financial management is a discipline related to the arrangement and management of a company's financial resources. Its focus is on making smart decisions in managing funds and financial assets to achieve objectives efficiently. In the context of a company or organization, financial management includes financial planning, fund procurement, investment management, cost control, cash flow monitoring, and financial performance analysis. The primary goal of financial management is to maximize the value of the company. Therefore, financial managers are responsible for making decisions that can increase the wealth of shareholders or owners while considering the risks involved. In addition, financial management plays a role in assessing the financial health of an entity and providing the necessary information for sound decision-making by both internal and external parties. Therefore, financial management is a crucial foundation for the sustainability and growth of an entity in a dynamic business environment (Shapiro & Hanouna, 2019).

The key aspects of financial management include planning, organizing, controlling, and supervising financial resources. This involves management, which is the process of organizing activities by individuals and groups. Organizing includes the efficient allocation of financial resources, determination of the financial structure, and assignment of responsibilities to individuals or departments in charge of financial management. Controlling involves using tools and procedures to ensure that financial resources are used according to established plans and policies and identifying and

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addressing potential risks or issues that may arise. Supervision involves monitoring financial performance, evaluating the achievement of goals, and taking corrective action if necessary. The entire process of financial management is essential for maintaining a balance between risk and return and ensuring the sustainability and growth of an entity (Göksu, 2023).

2.1.2. Capital Market

The capital market is a place where long-term financial instruments, such as bonds, stocks, mutual funds, and derivatives, are traded. Its function is not only as a source of funding for companies and industries but also as an investment tool for investors. The capital market includes various financial instrument markets, such as stocks, bonds, and time deposits, involving financial intermediaries such as commercial banks, securities companies, and stock exchanges. Investors use the capital market to gain profits through the purchase and sale of financial instruments, whereas companies use the capital market to raise funds for business expansion or investment projects. Thus, the capital market plays a vital role in the economy by facilitating the flow of funds between investors and companies and providing a mechanism for efficient capital allocation and risk management (Deng et al., 2023). In emerging markets such as Indonesia, the capital market serves as a critical mechanism for raising capital, particularly during times of economic uncertainty. As observed by Zhang et al. (2023), the stability and growth of capital markets in developing economies, such as Indonesia, significantly influence investor confidence and overall economic performance. Moreover, the capital market's role in fostering entrepreneurship and innovation is essential, as it provides startups and expanding businesses with access to the much-needed funds.

2.1.3. Composite Stock Price Index

The CSPI plays a crucial role in shaping investment decisions. It reflects both the market's current performance and investors' expectations regarding future returns, making it a vital tool for assessing the potential of investments in the Indonesian market. An increase in the CSPI is often interpreted as an indication of positive economic growth, as it can attract investor interest in further investments. However, a decline in the CSPI is often seen as a sign of economic difficulties, as it may reflect market uncertainty and cause investors to hesitate in making investments. Therefore, the CSPI is an important indicator closely monitored by market participants, including investors and financial analysts, to assess the capital market's condition and make informed investment decisions (Kahar et al., 2023). Conversely, a decline in the CSPI is often perceived as a signal of economic challenges and uncertainty. This downturn can indicate a slowdown in the economy, increased market volatility, or investor concerns about potential risks, prompting cautious behavior among investors. Such negative movements in the CSPI can discourage investment as investors seek to mitigate risks in an unstable market environment (Irejeh et al., 2024). Consequently, the CSPI is closely monitored by a wide range of market participants, including individual and institutional investors, financial analysts and policymakers.

2.2. Hypothesis Development

2.2.1. Positive Effect of Dow Jones Index on Composite Stock Price Index

The companies listed in this index are selected based on specific qualifications and their reputation on the United States stock exchange. Although this index is a specific indicator for the United State stock market, significant changes in its

performance can have a broad impact, including on stock markets in other countries, including Indonesia. Monitoring changes in the DJI is also important for market participants in Indonesia to understand global market dynamics and trends and prepare appropriate investment strategies (Schmidt, 2022). Moreover, global investors often rely on the Dow Jones as a gauge of the health of the United State economy, as it is considered a reflection of broader market trends in the United State economy. This hypothesis is based on the theory that capital markets in emerging countries, such as Indonesia, can be influenced by movements in international stock markets, including the DJI as a global stock market. The DJI, which reflects the performance of stocks from major companies in the United States, is often regarded as a gauge of global market sentiment that can impact stock markets in other countries through capital flows and investor perceptions. The DJI can influence stock markets in emerging countries such as Indonesia. This is in line with studies showing that emerging market stock markets often respond to movements in global stock indices, including the DJI, through investor sentiment and international capital flows (Beckmann & Czudaj, 2017).

H_1: Dow Jones Index Has a Positive Effect on Composite Stock Price Index

2.2.2. Positive Effect of Interest Rate on Composite Stock Price Index

Bank Indonesia introduced the BI7-DRR as the new benchmark interest rate starting August 19, 2016, replacing the BI Rate. This move aligns with common practices among central banks and is consistent with international standards for monetary operations. The purpose of this instrument is to reinforce monetary policy and exert influence over all with the goal of achieving greater economic stability. It is specifically designed to foster the growth of financial markets, particularly by facilitating the use of repos. These agreements help enhance market liquidity and improve the efficiency of financial resource allocation, ensuring that capital is effectively distributed across the economy. With the BI7-DRR, Bank Indonesia's monetary policy can be more effective in maintaining economic stability and supporting sustainable growth (Handoko et al., 2023). This hypothesis is based on the theory that interest rates are an important economic factor influencing stock market movements. High interest rates can reduce the attractiveness of stock market investments by increasing borrowing costs and decreasing capital market liquidity. Conversely, low interest rates tend to encourage investment in the stock market because of cheaper borrowing costs. Several studies have shown that interest rates significantly impact stock market movements in various countries, including emerging economies such as Indonesia (Putra, 2016; Riaz et al., 2020).

H_2: Interest Rate Has a Positive Effect on Composite Stock Price Index

2.2.3. Positive Effect of Inflation on Composite Stock Price Index

Mixed inflation is a combination of both factors, where price increases occur because the balance between demand and supply is disrupted by external factors. A good understanding of these types of inflation is crucial for the government and economic actors to formulate the right policies to address inflation's impact on the economy (Breman & Storm, 2023). High inflation usually results in increased costs for businesses, diminished consumer purchasing power, and introduces economic uncertainty, all of which can negatively affect stock prices. Conversely, low and stable inflation is generally associated with economic stability, fostering investor confidence and potentially leading to improved stock market performance (Balcilar et al., 2017; Cevik et al., 2020).

H_3: Inflation Has a Positive Effect on Composite Stock Price Index

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2.2.4. Positive Effect of Exchange Rate on Composite Stock Price Index

The exchange rate of the Rupiah refers to the value of one unit of currency in relation to another currency. A strong exchange rate against foreign currencies is generally seen as a positive sign for an economy dealing with inflation, as it can reduce the cost of importing raw materials and lower the interest rates. However, fluctuations in exchange rates can also influence stock prices. One theory that connects exchange rates with stock market performance is the International Portfolio Balance Theory. According to this theory, changes in a country's exchange rate can affect international investors' asset allocations, including their investments in the stock market. An appreciation of the currency can enhance the purchasing power of foreign investors in a stock market denominated in that currency, potentially driving stock prices up. However, this relationship is not solely dependent on exchange rates; it is also influenced by other factors, such as monetary policy, global economic conditions, and market sentiment. Therefore, gaining a comprehensive understanding of how exchange rates and stock prices interact is crucial for making well-informed investment decisions (Karmilah et al., 2023).

This hypothesis is based on the theory that exchange rates play a crucial role in stock market performance, particularly in emerging economies such as Indonesia. Rupiah depreciation may lead to higher import costs, reduced consumer spending, and lower corporate profits, which can negatively impact stock prices. Conversely, a stronger rupiah may improve investor confidence and promote stock market growth by enhancing the purchasing power of businesses and consumers. Many studies have investigated the link between exchange rates and stock market performance, revealing a notable connection between the two, particularly in economies with high trade exposure (Chang et al., 2017). These studies suggest that fluctuations in exchange rates can significantly impact stock prices, with the effects often being more pronounced in countries that engage heavily in international trade.

H_4: Exchange Rate Has a Positive Effect on Composite Stock Price Index

Figure 1 shows the research model used to analyze the factors influencing the Composite Stock Price Index. This study examined the positive influence of the Dow Jones Index, Interest Rate, Inflation, and Exchange Rate on Composite Stock Price Index.

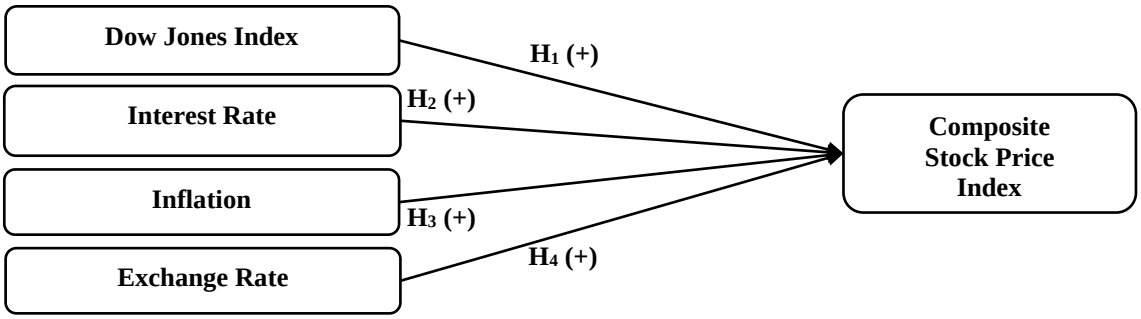

Figure 2. Research Model

3. Research Methods

3.1. Population and Sampling Method

This study examines the end-of-month values of the Jakarta Composite Index (JCI) from the Indonesia Stock Exchange (IDX) from 2018 to 2022. A non-probability sampling approach was utilized for choosing samples, specifically purposive sampling, which applied a saturated sampling technique to select the sample. This method includes every

member of the population as part of the sample, since including more samples would not influence the results. Data were gathered on a monthly basis from January 2018 through December 2022, involving the JCI, inflation figures, interest rate, exchange rate, and the DJI, totaling 60 samples for review.

3.2. Data Collecting Method

Utilizing secondary information sourced from stock markets, data suppliers, and previously conducted studies, this investigation aimed to analyze the interactions among the DJI, interest rates, inflation, exchange rates, and CSPI. The dataset was organized in a time-series format spanning January 2018 to December 2022.

3.3. Data Analysis

For this investigation, the researcher utilized Eviews. Various diagnostic assessments were performed to evaluate the data quality and regression model integrity. The initial assessment was a normality check intended to ascertain whether the research variables conformed to a normal distribution. A significance level (2-tailed) exceeding 0.05 suggested the presence of normality. Subsequently, a multicollinearity assessment was performed to ensure that there were no significant correlations among the independent variables within the regression model, utilizing the Variance Inflation Factor (VIF), where a figure under 10 indicates the absence of multicollinearity. Subsequently, a heteroscedasticity examination was conducted to determine whether the variance of the residuals in the regression model was inconsistent. The outcomes of the Spearman test, with a significance value higher than 0.05, verified that heteroscedasticity was not evident. Finally, an autocorrelation evaluation was performed using the Run Test, which provided an asymptotic. Sig. (2-tailed) value exceeding 0.05, confirming the absence of autocorrelation. These assessments illustrated that both the dataset and regression model met the necessary prerequisites for further scrutiny (Sekaran & Bougie, 2016).

Numerous traditional assumption evaluations were conducted to further confirm the regression model. The Shapiro-Wilk test was used to determine whether the residuals conformed to a normal distribution (Sekaran & Bougie, 2016). The VIF was used to evaluate multicollinearity, with values exceeding 10 indicating potential multicollinearity problems. The Breusch-Pagan test was applied to identify heteroscedasticity, with a p-value greater than 0.05 suggesting the absence of significant heteroscedasticity (Sekaran & Bougie, 2016). In addition, the Durbin-Watson statistic was used to assess autocorrelation, where scores between 1.5 and 2.5 imply no noteworthy autocorrelation. After meeting the assumptions, a multiple linear regression analysis was performed, which included t-tests for assessing partial significance. The t-test examined the separate influence of each independent variable on the CSPI (Sekaran & Bougie, 2016). A significance threshold of < 0.05 was established as the decision-making standard for both tests, ensuring that the findings were statistically relevant and meaningful.

4. Results and Discussion

4.1. Normality Test

The test for normality is essential in determining whether the research variables meet the criteria of a normal distribution, which is necessary for valid statistical analysis. The Kolmogorov-Smirnov test was used to evaluate the normality of the dataset. Based on established statistical standards, a dataset is considered normally distributed if the significance level (asymptotic. Sig.) from the Kolmogorov-Smirnov Test is greater than 0.05. The findings from the normality assessment in this study indicated an asymptotic.

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Sig. (2-tailed) value of 0.2, which was significantly higher than the critical threshold of 0.05. Table 1 presents the normality test results.

Table 1. Normality Test Result

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	465.34750524
Most Extreme Differences	Absolute	.090
	Positive	.059
	Negative	-.090
Test Statistic		.090
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Secondary Data Processed (2024)

This outcome confirms that the data used in the analysis were normally distributed, meeting one of the essential assumptions necessary for conducting a reliable regression analysis. With this confirmation, it can be confidently stated that the dataset is appropriate for further statistical testing. The normality of the data enhances the credibility of the subsequent results, ensuring that the statistical tests performed, including regression analysis, are both valid and dependable. This validation is a critical step in the research process, as it helps guarantee that the conclusions drawn from the data are accurate and reflect the true relationships between the variables under study.

4.2. Multicollinearity Test

A multicollinearity test was conducted to assess whether there was any correlation between the independent variables in the regression model. The results of this test in the study show that the tolerance values for inflation (0.707), interest rate (0.837), exchange rate (0.816), and DJI (0.971) are all below 1. Additionally, the VIF values for inflation (1.415), interest rate (1.195), exchange rate (1.225), and the DJI (1.030) were all below 10. Given that the multicollinearity test criteria require tolerance values to be less than 1 and VIF values to be below 10, it can be concluded that no multicollinearity exists between the variables of this study. Table 2 presents the multicollinearity test results.

Table 2. Multicollinearity Test Result

Model	Tolerance	VIF
Inflation	0.707	1.415
Interest Rate	0.837	1.195
Exchange Rate	0.816	1.225
Dow Jones Index	0.971	1.030

Source: Secondary Data Processed (2024)

4.3. Heteroscedasticity Test

The Spearman Test results reveal that the significance values for inflation (0.641), interest rate (0.359), exchange rate (0.588), and DJI (0.979) all exceed 0.05. This implies that there is no indication of heteroscedasticity in the model. Given the 5% significance level (0.05) used for this test, we can conclude that the regression model is free from heteroscedasticity, as none of the significance values fall below the 0.05 threshold. Table 3 presents the heteroscedasticity test results.

Table 3. Heteroscedasticity Test Result

		Standardized Residual	Inflation	Interest Rate	Exchange Rate	Dow Jones Index
Unstandardized Residual	Correlation Coefficient	1.000	-0.061	-0.121	0.071	-0.004
	Sig. (2-tailed)	.	0.641	0.359	0.588	0.979
	N	60	60	60	60	60
Inflation	Correlation Coefficient	-0.061	1.000	0.428	0.083	-0.205
	Sig. (2-tailed)	0.641	.	0.001	0.528	0.115
	N	60	60	60	60	60
Interest Rate	Correlation Coefficient	-0.121	0.428	1.000	-0.128	0.010
	Sig. (2-tailed)	0.359	0.001	.	0.331	0.937
	N	60	60	60	60	60
Exchange Rate	Correlation Coefficient	0.071	0.083	-0.128	1.000	-0.121
	Sig. (2-tailed)	0.588	0.528	0.331	.	0.357
	N	60	60	60	60	60
Dow Jones Index	Correlation Coefficient	-0.004	-0.205	0.010	-0.121	1.000
	Sig. (2-tailed)	0.979	0.115	0.937	0.357	.
	N	60	60	60	60	60

Source: Secondary Data Processed (2024)

4.4. Autocorrelation Test

As shown in Table 4, the asymptotic sig. (2-tailed) figure from the Run Test was 0.238. Because this value exceeds the critical significance threshold of 0.05 (0.238 > 0.05), it can be concluded that there is no autocorrelation in the model. This outcome is vital because it indicates that the regression model adheres to the assumption of no autocorrelation, thereby ensuring the robustness of the analysis. The absence of autocorrelation confirms that the residuals are independent of one another, which is a key assumption for regression analysis. The findings of this study can be considered reliable, and the regression model used in the analysis is accurate and well-suited for drawing meaningful conclusions. Table 4 presents the autocorrelation test results.

Table 4. Autocorrelation Test Result

	Unstandardized Residual
Test Value[a]	0.733
Cases < Test Value	29
Cases > Test Value	30
Total Cases	59
Number of Runs	26
Z	-1.180
Asymp. Sig. (2-tailed)	0.238

Source: Secondary Data Processed (2024)

4.5. Multiple Linear Regression Test

Table 5 shows the results of the multiple linear regression test. Based on these results, it can be concluded that from the development of research hypotheses, only one hypothesis is accepted, namely the third hypothesis (inflation has a positive effect on CSPI). Then the first hypothesis is rejected because the significance value is more than 0.05, the second and fourth hypotheses are rejected because the coefficient value is negative, contrary to the hypothesis development whose direction is positive.

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Table 5. Multiple Linear Regression Test Result

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	13076.186	1897.497		6.891	0.000
Dow Jones Index	4.187	11.865	0.035	0.353	0.726
Interest Rate	-242.462	73.958	-0.347	-3.278	0.002
Inflation	457.880	64.388	0.819	7.111	0.000
Exchange Rate	-0.494	0.132	-0.403	-3.758	0.000

Source: Secondary Data Processed (2024)

4.6. Coefficient of Determination Test

Table 6 shows the results of the coefficient of determinant test. The evaluation of the R-Square test indicates a figure of 0.485, equating to 48.5%, illustrating that the collective impact of DJI, interest rates, inflation, and exchange rates is responsible for almost half of the changes noted in the CSPI. This suggests that these macroeconomic elements account for 48.5% of the variations within the CSPI. Additionally, it reveals that 51.5% of the variability stems from elements outside the scope of this research, underscoring the intricate nature of stock market dynamics.

Table 6. Coefficient of Determination Test

Model	R	R-Square	Adjusted Square	Std. Error of The Estimate	Durbin-Watson
1	0.696[a]	0.485	0.447	481.97227	0.275

Source: Secondary Data Processed (2024)

This result proposes that although the factors examined in this study greatly aid in comprehending the fluctuations of the CSPI, there exist other external or overlooked variables that significantly influence the Indonesian stock market's performance. Consequently, it is crucial for investors and policymakers to take into account supplementary economic, political, or global influences that might further affect stock market developments.

4.7. Discussion

4.7.1. The Effect of the Dow Jones Index on Composite Stock Price Index

This outcome reinforces the notion that, in this study, the DJI does not significantly impact the fluctuations of the CSPI. These findings align with earlier research, such as the work of Herlianto and Hafizh (2020), who also identified a positive but insignificant correlation between the DJI and CSPI. Nonetheless, their study indicated that other indices, such as the Nikkei 225, exerted a significantly negative impact on the CSPI, whereas the Shanghai Stock Exchange and the Singapore Straits Times Index demonstrated no substantial effects. This discrepancy suggests that the influence of global stock market indices on the CSPI may vary depending on the specific market being studied and the particular economic conditions at play in each country. Therefore, the results emphasize the importance of considering the contextual factors surrounding each stock market when analyzing the impact of global indices. The complexity of the relationship between global stock market performance and domestic indices, such as the CSPI, is well documented in the research by Beckmann and Czudaj (2017), further underscoring the need to approach such analyses with an understanding of the unique dynamics of each market.

4.7.2. The Effect of Interest Rate on the Composite Stock Price Index

In essence, when interest rates increase, the CSPI generally decreases and vice versa, illustrating the inverse correlation between these two factors. This study offers essential insights for investors and policymakers, emphasizing the pivotal role of interest rates in guiding investment choices in the stock market (Irejeh et al., 2024). The negative and significant effect of interest rates on the CSPI aligns with earlier studies, such as those by Awaloedin et al. (2024), further solidifying the view that interest rates are a key factor in stock market dynamics. Previous research has consistently found that rising interest rates generally lead to a decline in the CSPI, and vice versa, as demonstrated by Hasanudin and Pratama (2023). The consistency of these findings strengthens the argument that the relationship between interest rates and the CSPI is an essential aspect of stock market behavior that requires careful observation. These insights emphasize the importance of considering interest rates as a significant determinant of stock market performance, as highlighted by Frikasih et al. (2023), and underscore the need for market participants to adjust their strategies accordingly.

4.7.3. The Effect of Inflation on the Composite Stock Price Index

This result emphasizes that as inflation rises, the CSPI is likely to increase, and vice versa. This positive relationship highlights the significance of inflation as a variable affecting stock market activity, establishing it as an essential factor for investors and analysts to consider when making market-related decisions in the long run. These results align with previous studies that have also found inflation to have a positive, although sometimes not always significant, effect on the CSPI. However, in the context of this study, the positive and significant relationship between inflation and CSPI is evident. Interestingly, other studies have noted that the Bank Indonesia Certificate (BIC) interest rate has a negative and significant impact on the CSPI. This suggests that while inflation contributes to boosting the CSPI, its effect may not always be as pronounced as that of interest rates. In contrast, the BIC interest rate consistently shows a significant negative influence on the CSPI, indicating its stronger and more direct role in shaping stock market trends. This discovery provides valuable insights for market participants, helping them to better understand the intricate dynamics between inflation, interest rates, and the movement of the CSPI within the broader financial market context (Nasution et al., 2023; Sara, 2023).

According to Bekaert and Harvey (2017), inflation can lead to increased costs for companies, which, in turn, affects their profitability. However, in emerging markets such as Indonesia, some sectors may benefit from inflation, such as commodities or export-driven companies, thereby mitigating the potential negative effects on stock prices. Other studies, such as Schwert (2021), have shown that the relationship between inflation and stock prices is highly context-dependent, varying with the level of inflation and market expectations. The significant negative effect of the BIC interest rate on the CSPI is consistent with the findings of several studies. As noted by Kumar et al. (2021), higher interest rates typically reduce stock market returns, as they raise the cost of capital for companies and lower the present value of future cash flows. In Indonesia, a rise in BIC interest rates could signal a tighter monetary policy by Bank Indonesia, which can reduce liquidity and make borrowing more expensive for businesses and consumers, negatively impacting stock market performance. This concurs with the research by Riaz et al. (2020), who found that interest rate changes have a more pronounced effect on stock markets in developing economies, where financial markets are more sensitive to policy shifts. Thus, the findings of this study

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emphasize the importance of monitoring both inflation and interest rate movements when analyzing stock market dynamics in Indonesia, as these factors have varying levels of impact on stock prices.

4.7.4. The Effect of Exchange Rates on the Composite Stock Price Index

This negative correlation between the exchange rate and the JCI is particularly insightful for investors and market analysts, as it emphasizes the importance of considering exchange rate movements when making stock market investment decisions. The study further corroborates that exchange rate fluctuations play a pivotal role in influencing the Composite Stock Price Index (CSPI), providing valuable information for market participants who need to assess global economic factors. As exchange rate variations often reflect underlying macroeconomic shifts, understanding this relationship can help forecast stock market trends and make more informed investment choices. This aligns with prior research that indicates that the exchange rate of the Indonesian rupiah negatively affects the CSPI. In other words, fluctuations in the exchange rate of the rupiah tend to influence the CSPI in the same direction; when the rupiah weakens, the CSPI tends to fall, and when the rupiah strengthens, the CSPI tends to rise. This consistency in the results strengthens the conclusion that the exchange rate is a crucial factor to consider when analyzing the movement of the CSPI (Putra, 2016).

5. Conclusion

According to the results of this study, it can be inferred that the DJI positively affects the CSPI. However, this impact lacks statistical significance. While fluctuations in the DJI may shape investor perceptions of global market conditions and sentiment, its direct impact on the CSPI is inconclusive. This suggests that although global market trends can influence investor behavior, they do not necessarily lead to significant changes in the movement of the CSPI. Consequently, it is crucial for investors and analysts to consider not only global indices but also domestic economic factors when evaluating the performance of the CSPI, as the latter plays a more prominent role in shaping the index's movement.

Interest rates have a significant negative effect on the CSPI, indicating that as interest rates rise, stock prices decrease. This occurs because higher interest rates make investments in the stock market less attractive than other investment avenues. Conversely, a reduction in interest rates can stimulate the stock market, supporting the growth of the CSPI. The exchange rate also has a significant negative impact on the CSPI. Fluctuations in domestic currencies, particularly the Rupiah, influence businesses differently. Export-oriented companies may benefit from a weaker exchange rate, whereas those reliant on imported goods and raw materials may face challenges. Exchange rate movements can also sway investor sentiment, thereby affecting the market performance.

Conversely, inflation has a significant positive impact on the CSPI. This suggests that, in general, moderate inflation may be a sign of a growing economy that can support rising stock prices. However, it is essential to note that excessively high inflation can reduce purchasing power and squeeze corporate profit margins, potentially harming market performance in the long run. For further research, it is recommended that the interaction between external and internal factors that impact the CSPI be explored. Future studies should investigate how global and domestic monetary and fiscal policies affect CSPI movement to provide a more comprehensive understanding of market dynamics. Additionally, expanding the research to include other variables, such as political stability, geopolitical developments, and technological advances, could offer deeper insights. A comparative study of the Indonesian stock market and those of other countries could further enhance our understanding of the specific factors driving the CSPI.

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