

The Impact of Macroeconomic Factors on the IHSG, with Stock Prices as an Intervening Variable

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ABSTRACT

Purpose: This study aims to analyze the effects of exchange rates and inflation on the Composite Stock Price Index (IHSG), with LQ45 stock prices as an intervening variable, for the period 2021–2025.

Research Method: This study employs a quantitative approach using monthly secondary data obtained from the Indonesia Stock Exchange, Bank Indonesia, and the Central Statistics Agency. The analysis was conducted using Partial Least Squares–Structural Equation Modeling (PLS-SEM) through path analysis and bootstrapping procedures using SmartPLS.

Results and Discussion: The results show that the exchange rate has a positive effect on the LQ45 Stock Price and the IHSG, whereas inflation does not affect either variable. The LQ45 Stock Price has a positive effect on the IHSG and partially mediates the exchange rate's effect on the IHSG, but does not mediate the relationship between inflation and the IHSG.

Implications: These findings underscore the importance of exchange rate stability as a foundation for investment decision-making and the formulation of capital market policies.

Originality: The novelty of this study lies in testing the mediating role of the LQ45 stock price in explaining the transmission mechanism by which macroeconomic variables affect the IHSG.

Keywords: exchange rate; inflation; LQ45; stock price; Jakarta Composite Index; IHSG.

1. Introduction

The capital market is one of the key indicators reflecting a country's economic conditions, while also serving as a means for companies to raise funds to increase their corporate value. From a financial perspective, the primary objective of a publicly traded company is to maximize shareholder wealth by increasing corporate value, as reflected in the stock price in the capital market. Brigham (2004) explains that corporate value represents investors' perception of a company's success, which is generally reflected through the stock price. The higher the stock price, the greater investors' confidence in the company's prospects. Therefore, stock price dynamics serve as a crucial indicator of how the market responds to changes in economic conditions and information affecting the company's prospects.

In Indonesia, the LQ45 Index is a strategic index comprising stocks with large market capitalization and high liquidity, making it a common benchmark for assessing the condition of the national capital market. Tandililin (2020) states that large-cap, highly liquid stocks tend to respond more quickly to changes in macroeconomic information than second- or third-tier stocks. This dynamic means that changes in macroeconomic variables are first reflected in the stock prices of companies



included in the LQ45 Index before ultimately influencing the movement of the Composite Stock Price Index (IHSG). Thus, stock prices serve as a strategic transmission mechanism through which macroeconomic conditions affect aggregate market value.

The 2021–2025 period presents highly complex macroeconomic dynamics for the Indonesian economy. The year 2021 marked a post-COVID-19 recovery phase, still characterized by high global uncertainty. Mishkin (2007) explains that rising macroeconomic uncertainty increases the risk premium demanded by investors, leading to higher stock market volatility. Furthermore, the 2022–2023 period was marked by a surge in global inflation due to post-pandemic supply chain disruptions and the Russia–Ukraine geopolitical conflict. In 2024–2025, the market once again faced uncertainty due to the post-2024 General Election government transition and adjustments to various national economic policies. Tandelilin (2020) states that political stability is part of systematic risk that cannot be diversified; thus, changes in government policy often influence investor behavior by increasing market uncertainty.

This phenomenon is reflected in the movement of the LQ45 Index, which experienced fairly sharp fluctuations during the observation period. Based on data from the Indonesia Stock Exchange (IDX), the LQ45 Index showed a downward trend from the end of 2024 through mid-2025, as shown in Figure 1. This decline in the index indicates rising external and domestic pressure on Indonesia's blue-chip stocks, signaling a shift in investor perceptions of the national capital market's prospects.

Figure 1. Movement of the LQ45 Index (2021–2025)



Various studies have examined the relationship between macroeconomic conditions and the Indonesian capital market. In general, macroeconomic variables such as inflation, exchange rates, interest rates, and economic growth have been shown to explain changes in stock prices and market indices. Hamzah *et al.*, (2021) found that interest rates have a negative effect on the LQ45 Index, while exchange rates and foreign exchange reserves have a significant positive effect. These findings indicate that changes in macroeconomic conditions can influence investors' investment decisions through shifts in expectations regarding corporate performance. Another study by Ilyas (2022) on companies included in the LQ45 Index for the 2011–2021 period showed that exchange rates and the BI Rate have a significant effect on stock prices, whereas inflation and Gross Domestic Product (GDP) do not. These

results indicate that not all macroeconomic indicators exhibit the same sensitivity to the stock market, suggesting that the relationships among variables remain empirically inconsistent. Different results were also found by Khalifaturfiah (2023), who analyzed LQ45 companies for the 2017–2021 period. That study showed that the exchange rate had a negative effect on the LQ45 Index, while interest rates had a positive effect. Conversely, neither inflation nor economic growth had a significant effect on the index. These differing research findings indicate that the relationship between macroeconomic variables and the capital market remains dynamic and is strongly influenced by the characteristics of the study period, economic conditions, and investor behavior.

In addition to these empirical findings, Indonesia's macroeconomic data during the study period also revealed an interesting phenomenon. According to data from the Central Statistics Agency (BPS), Indonesia's inflation rate reached 5.51% in 2022—the highest level in the past decade—due to rising global energy and food prices. Chiang (2023) explains that high inflation increases companies' operating costs, thereby reducing profitability and ultimately putting downward pressure on stock prices. The rupiah's exchange rate against the U.S. dollar depreciated to nearly Rp16,000 per dollar during certain periods in 2022 and early 2024. According to Krugman *et al.*, (2018), the depreciation of the domestic currency increases the cost of importing raw materials and companies' foreign-currency debt burdens, thereby potentially reducing firm value through lower profits and stock prices. Although various studies have demonstrated that macroeconomic variables influence both stock prices and the LQ45 Index, several limitations remain in the prior literature. First, most studies have examined only the direct effects of macroeconomic variables on stock prices or market indices separately. Second, previous research findings show inconsistencies regarding the effects of inflation and exchange rates on the capital market. Third, previous studies have not explicitly explained the mechanism by which macroeconomic conditions influence the IHSG through changes in stock prices as an intervening mechanism, particularly for companies included in the LQ45 Index.

Theoretically, stock prices are the first reflection of investors' responses to changes in macroeconomic conditions before such changes are reflected in aggregate market index movements. Therefore, treating stock prices as an intervening variable provides a more comprehensive explanation of the transmission process through which inflation and exchange rates influence the IHSG. This approach is expected to broaden our understanding of the mechanisms underlying firm valuation amid economic uncertainty and address the limitations of previous studies, which have primarily focused on direct relationships among variables. Based on empirical evidence, the inconsistencies in previous research findings, and these research gaps, this study aims to analyze the effects of inflation and exchange rates on the IHSG, with stock prices as an intervening variable, for companies included in the LQ45 Index during the 2021–2025 period. The novelty of this study lies in the development of a mediation model that explains how macroeconomic variables affect the IHSG through stock prices—an approach that has not been extensively tested in prior research on the Indonesian capital market, particularly for LQ45 blue-chip stocks. Thus, this study is expected to make a theoretical contribution to the development of financial literature on the transmission mechanism from the macroeconomy to the capital market and to provide practical implications for investors, companies, and policymakers in formulating investment strategies and capital market stabilization policies.

The remainder of this paper is organized as follows. Section 2 provides a literature review and hypothesis development. Section 3 presents the research method and design. Section 4 provides the results and discussion. Section 5 presents Concluding Remarks and Recommendations.



2. Literature Review and Hypothesis Development

2.1 Literature Review

2.1.1 Capital Market

The capital market is a financial system that brings together parties with excess funds and those in need of long-term financing through the trading of various financial instruments, such as stocks, bonds, and other securities. The capital market serves not only as a source of funding for companies but also as an investment vehicle that reflects a country's fundamental economic conditions. In an efficient market mechanism, security prices are determined by the interaction of supply and demand and quickly incorporate new information as it becomes available, thereby reflecting investors' expectations regarding a company's prospects and the overall economic conditions. This efficiency is a critical factor in maintaining market credibility because it ensures that the price-formation process is transparent and rational. Peranginangin (2023) emphasizes that capital market efficiency is influenced by market participants' ability to respond to information quickly and accurately, while Pontoh & Budiarto (2023) demonstrate that changes in economic conditions or external events are immediately reflected in stock index movements as a consequence of efficient market mechanisms. Therefore, the capital market not only reflects corporate value but also serves as a key indicator of economic stability and investor confidence in the prospects for national economic growth.

Developments in modern capital markets indicate that stock price dynamics are increasingly influenced by global economic volatility, financial market integration, and changes in investor behavior in response to information. Grebe & Schiereck (2024) explain that investor behavior and market efficiency play a crucial role in shaping stock price dynamics, as new information is immediately reflected in trading activity, thereby affecting market value. Meanwhile, Yulfajar *et al.*, (2025) found that capital market volatility is closely linked to economic growth, with increasing economic uncertainty influencing investment decisions and amplifying stock price fluctuations. In the Indonesian context, Mahastanti & Oktavia (2022) demonstrate that integrating the Indonesian capital market with ASEAN capital markets has made domestic market movements increasingly sensitive to changes in regional and global economic conditions, thereby making market stability heavily influenced by external sentiment and international capital flows. These conditions reinforce the capital market's role as both a mechanism for transmitting economic information and a barometer of the national economy's health. Thus, movements in stock prices and market indices not only reflect companies' fundamental performance but also represent investors' collective response to changes in macroeconomic indicators, global risks, and expectations regarding future economic growth.

2.1.2 Exchange Rate

An exchange rate is the value of one country's currency expressed in terms of another country's currency and serves as a key indicator of monetary stability, economic competitiveness, and the balance of international transactions. In an open economy, changes in exchange rates affect trade, investment, capital flows, and corporate sector performance—particularly for companies that rely on imported raw materials or foreign currency financing. Depreciation of the domestic currency increases import costs, the burden of foreign debt payments, and exchange rate risk, which can ultimately reduce corporate profitability. Conversely, currency appreciation can strengthen purchasing power for imported goods,

although it can also reduce export competitiveness. Therefore, exchange rate stability is a key objective of monetary policy as it reflects investor confidence in a country's economic fundamentals. Ibrahim & Sukmana (2023) explain that the effectiveness of monetary policy in developing countries is heavily influenced by exchange rate stability, as exchange rate fluctuations affect the transmission of policy to the real sector and financial markets. In line with this, Dovonou (2024) emphasizes that the dominance of the U.S. dollar in global trade and the financial system has made exchange rate movements an increasingly critical factor in domestic economic stability, particularly in developing countries with high levels of economic openness.

From a capital market perspective, exchange rate movements constitute fundamental information that influences investors' expectations regarding corporate prospects and investment risk. Exchange rate fluctuations affect cash flows, operating costs, and corporate profit estimates, which are then reflected in changes in stock prices and market indices. When exchange rates are highly volatile, investors tend to perceive greater risk, leading to portfolio adjustments and increased volatility in capital markets. El-Diftar (2023) demonstrates that exchange rate changes significantly affect stock market performance in developing countries by influencing investment decisions and corporate valuations. In the Indonesian context, Utama *et al.*, (2024) found that exchange rate stability is a key determinant of capital market development because it affects investor confidence and stock index movements. These findings are reinforced by Anggi *et al.*, (2025), who show that exchange rate fluctuations are closely related to changes in corporate stock prices in Indonesia, particularly in sectors with high exposure to international trade. Thus, the exchange rate serves not only as an indicator of macroeconomic stability but also as a strategic variable influencing stock price dynamics, investor behavior, and overall capital market movements.

2.1.3 Inflation

Inflation is a condition characterized by a general and sustained rise in the prices of goods and services in an economy, leading to a decline in the public's purchasing power and affecting macroeconomic stability. As one of the key indicators of monetary policy, inflation reflects the balance between supply and demand, the effectiveness of controls over the money supply, and economic actors' expectations regarding future economic conditions. A stable inflation rate creates an economic climate conducive to consumption, investment, and production. In contrast, high or uncontrolled inflation increases economic uncertainty, raises production costs, and reduces the real value of income and financial assets. These conditions prompt the central bank to adjust monetary policy—primarily through changes in interest rates—to maintain price stability and financial stability. Sia *et al.*, (2024) explain that inflation is a key determinant influencing the transmission mechanism of monetary policy to financial markets, while Majok *et al.*, (2024) demonstrate that changes in inflation have direct implications for economic activity and investment decisions because they affect market participants' expectations regarding risk and the prospects for economic growth.

From a capital markets perspective, inflation is a macroeconomic variable that affects corporate value through changes in operating costs, consumer purchasing power, and investors' expected rates of return. Rising inflation tends to reduce corporate profitability by increasing raw material and production costs, thereby affecting cash flow estimates and stock valuations. Furthermore, high inflation is often followed by rising interest rates, which cause investors to shift their investments from the stock market to relatively safer fixed-income instruments. Ramadhani *et al.*, (2024) demonstrate that inflation



is a significant factor influencing the movement of the Composite Stock Price Index (IHSG), particularly during periods of economic uncertainty. This finding is reinforced by Fauzi & Wijoyo (2025), who state that inflation plays a crucial role in determining the dynamics of the Indonesian capital market alongside other macroeconomic variables. In line with this, Purnamasari *et al.*, (2025) found that changes in the inflation rate affect the movement of the IHSG through shifts in investors' risk and corporate profit expectations. Thus, inflation not only reflects price stability in the economy but also serves as a strategic indicator that influences investor behavior, corporate performance, and the overall dynamics of the capital market.

2.1.4 LQ45 Stock Prices

A stock price is the market value of a stock determined by the mechanisms of supply and demand in the capital market. It reflects investors' expectations regarding a company's future performance, risk, and prospects. In the context of the Indonesian capital market, stocks included in the LQ45 Index are characterized by large market capitalization, high liquidity, and active trading volume, making them a key indicator of the national stock market's dynamics. Stock price movements in this group are influenced not only by the companies' fundamentals but also by external factors such as changes in macroeconomic conditions, market sentiment, and economic policies. Mahirun (2023) explains that the stock returns of LQ45 companies are influenced by a combination of fundamental factors and economic conditions that shape investors' perceptions of a company's value. In line with this, Satriaji & Maryanti (2023) demonstrate that corporate financial indicators strongly influence changes in the stock prices of LQ45 companies, as such information serves as the basis for investors' evaluation of return prospects and investment risks. Thus, LQ45 stock prices can be viewed as both a representation of corporate value and a reflection of market efficiency in processing available information.

From a financial theory perspective, LQ45 stock prices play a strategic role because they reflect the market's response to new information regarding corporate conditions and the economic environment. Information regarding financial performance, corporate policies, and changes in economic conditions is immediately reflected in stock prices by investors, thereby influencing market prices. Al-Hiyari *et al.*, (2024) explain that the quality of corporate governance and the level of information asymmetry play a crucial role in stock price formation because they influence investor confidence in a company's value. In the Indonesian context, Saputra *et al.*, (2025) found that the stock prices of LQ45 companies are influenced by various fundamental factors that determine market perceptions of issuers' performance, while Jayanti *et al.*, (2026) demonstrated that accounting indicators make a significant contribution to explaining changes in the stock prices of LQ45 companies on the Indonesia Stock Exchange. Therefore, LQ45 stock prices not only represent the interaction of supply and demand in the market but also serve as a key indicator reflecting a company's fundamental quality, the effectiveness of its corporate governance, and investor responses to changes in economic conditions and evolving information in the capital market.

2.1.5 Composite Stock Price Index (IHSG)

The Composite Stock Price Index (IHSG) is a key indicator that reflects the overall performance of the stock market on the Indonesia Stock Exchange (IDX) through the price movements of all listed stocks. As a market-capitalization-weighted index (market capitalization weighted index), the IHSG reflects changes in the market value of publicly traded companies and is therefore often used as a barometer



of capital market conditions and the health of the national economy. Movements in the IHSG are influenced by various factors, ranging from corporate fundamentals to macroeconomic dynamics, such as inflation, exchange rates, interest rates, commodity prices, and global market sentiment. Therefore, changes in the IHSG not only represent aggregate changes in stock prices but also reflect investors' collective response to evolving economic information. Krisnandi *et al.*, (2024), in a systematic literature review, explain that IHSG movements are influenced by interactions among various macroeconomic variables and external factors that shape investors' expectations about the prospects of the Indonesian capital market. In line with this, Wardana & Masdjojo (2024) demonstrate that inflation, interest rates, and exchange rates are the primary determinants affecting changes in the IHSG, as these three variables influence investment decisions and corporate valuations in the capital market.

As an aggregate market indicator, the IHSG also reflects investor confidence in economic stability and national growth prospects. When economic conditions improve, corporate performance rises, and investor expectations become more positive, driving up stock prices—a trend reflected in a rising IHSG. Conversely, economic uncertainty or global market volatility increases risk perceptions and prompts portfolio adjustments, leading to a decline in the index. Nugroho & Dwiridotjahjono (2025) demonstrate that movements in the IHSG are influenced not only by domestic factors but also by international market dynamics, including global stock indices, oil prices, and fluctuations in the rupiah exchange rate. These findings are supported by Khotimah *et al.*, (2024), who found that inflation, interest rates, and gold prices are key factors driving changes in the IHSG, as they influence investors' asset allocation preferences. Furthermore, Purnamasari *et al.*, (2025) demonstrate that inflation, exchange rates, and interest rates affect the IHSG by altering investors' expectations of risk and corporate profit prospects. Thus, the IHSG serves not only as an indicator of the Indonesian capital market's performance but also as a representation of the dynamic interplay between macroeconomic conditions, corporate performance, and investor behavior in response to changes in the domestic and global economic environment.

2.1.6 Theory of Inter-Variable Relationships

Given the economic fluctuations during the study period, the selection of the exchange rate and inflation as the primary macroeconomic variables was driven by their high sensitivity to the performance of large-cap companies in the LQ45 Index. The exchange rate affects external stability through international trade competitiveness, foreign-currency debt exposure, and currency conversion risk. At the same time, inflation reflects domestic pressures that affect production costs, interest rates, and consumer purchasing power (Chiang, 2023). Changes in these two indicators send economic signals that investors respond to immediately, in accordance with Signaling Theory, and these changes are reflected in stock price movements as the intervening variable. In line with Fama's (1970) Market Efficiency Theory, stock prices will adjust rapidly to fundamental economic information. Since LQ45 stocks have the largest market capitalization on the Indonesia Stock Exchange, changes in the stock prices of this group will contribute significantly to movements in the Composite Stock Price Index (IHSG), the dependent variable.

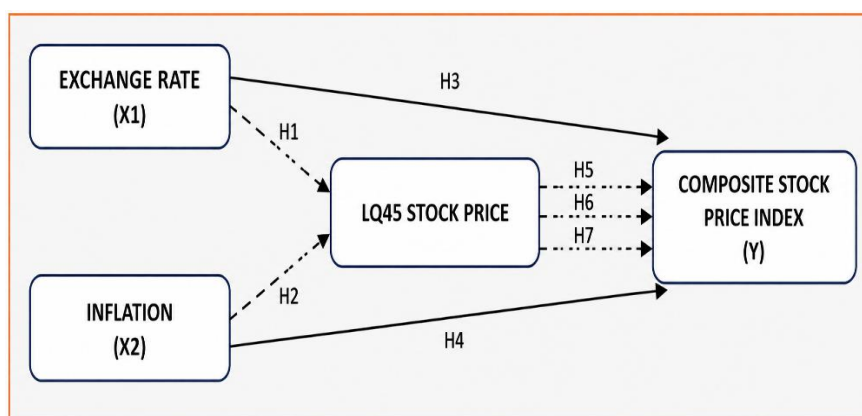
2.1.7 Conceptual Framework of the Study

This study analyzes the effects of the Exchange Rate (X1) and Inflation (X2) on the Composite Stock Price Index (IHSG) (Y), with LQ45 Stock Prices (Z) serving as the intervening variable. The conceptual



framework is based on Ross's Signaling Theory (1977) and the Efficient Market Hypothesis (Fama, 1970). From the perspective of Signaling Theory, changes in exchange rates and inflation serve as macroeconomic signals that reflect monetary stability and corporate performance prospects, thereby influencing investment decisions in capital markets. Furthermore, the Efficient Market Hypothesis holds that publicly available macroeconomic information is immediately incorporated into stock price changes. Therefore, the LQ45 Stock Price is positioned as an intervening variable that transmits the effects of exchange rates and inflation on the IHSG. Given that LQ45 stocks have dominant market capitalization and liquidity on the Indonesia Stock Exchange, aggregate changes in the stock prices of this group will influence the direction of the IHSG's movement. Based on this relationship, the conceptual flow of the study is visualized in Figure 2.

Figure 2. Conceptual Framework



2.2 Hypothesis Development

2.2.1 The Impact of Exchange Rates on the IHSG

Exchange rates are macroeconomic indicators that reflect a country's monetary stability and economic competitiveness. A depreciation of the rupiah could increase companies' operating costs—particularly for listed companies that rely on imports and foreign-currency debt—thereby reducing profitability expectations and investor confidence. Furthermore, exchange rate volatility can trigger capital outflows, which in turn weaken capital market activity. The IMF (2023) emphasizes that exchange rate instability can disrupt the investment climate, while Astuti *et al.*, (2016) and Jauhari *et al.*, (2018) demonstrate that exchange rate fluctuations significantly affect IHSG movements.

H1: The exchange rate has a negative effect on the Composite Stock Price Index (IHSG).

2.2.2 The Effect of Inflation on the IHSG

Inflation is a macroeconomic indicator that reflects the stability of purchasing power and the rate of price increases in the economy. High inflation increases production costs, reduces corporate profitability, and prompts the central bank to tighten monetary policy by raising interest rates, thereby reducing the attractiveness of stock market investment. Chiang (2023) demonstrates that inflation is negatively correlated with stock market performance because it reduces the real return on equity. These

findings are supported by Darmawan and Haq (2022) and Astuti *et al.*, (2016), who demonstrated that inflation has a significant effect on the IHSG. Based on these findings, the proposed hypothesis is:

H2: *Inflation has a negative effect on the Composite Stock Price Index (IHSG).*

2.2.3 *The Effect of Exchange Rates on LQ45 Stock Prices*

LQ45 stock prices reflect investors' expectations regarding the prospects of large-cap companies with high exposure to international trade. Exchange rate depreciation increases import costs and foreign currency debt obligations, thereby reducing corporate profitability. According to Signaling Theory, this decline in fundamental performance is perceived as a negative signal, prompting investors to sell their shares. Pratama and Wijayanti (2020) and Situngkir and Batu (2020) demonstrated that exchange rate fluctuations have a significant effect on the stock prices of companies in the LQ45 index. Based on these findings, the proposed hypothesis is:

H3: *The exchange rate has a negative effect on LQ45 stock prices.*

2.2.4 *The Effect of Inflation on LQ45 Stock Prices*

Inflation is a macroeconomic risk factor that affects a company's fundamental performance by increasing production costs and reducing consumer purchasing power. These conditions lower profit projections and the real value of stock returns, thereby sending a negative signal to investors in accordance with Signaling Theory. Chiang (2023) explains that high inflation weighs on stock market performance, while Situngkir and Batu (2020) and Pratama and Wijayanti (2020) demonstrate that inflation has a significant effect on the stock prices of companies included in the LQ45 Index. Based on these findings, the proposed hypothesis is:

H4: *Inflation has a negative effect on LQ45 stock prices.*

2.2.5 *The Effect of LQ45 Stock Prices on the IHSG*

The stock prices of companies in the LQ45 Index contribute significantly to movements in the IHSG because large-cap stocks dominate the index. According to Bodie, Kane, and Marcus (2021), changes in stock prices of major companies determine the direction of the aggregate market index. These findings are supported by Darmawan and Haq (2022) and Jauhari *et al.*, (2018), who demonstrated that LQ45 stock prices significantly affect IHSG movements. Based on these findings, the proposed hypothesis is:

H5: *LQ45 stock prices have a positive effect on the Composite Stock Price Index (IHSG).*

2.2.6 *The Effect of Exchange Rates on the IHSG via LQ45 Stock Prices*

Signaling Theory holds that exchange rate depreciation signals a negative view of a company's prospects because it increases import costs and foreign-currency debt obligations. This impact is first reflected in a decline in the stock prices of LQ45 companies before affecting the IHSG. Given that the LQ45 has a dominant market capitalization, changes in the stock prices of this group will be transmitted to the index's overall movement (Bodie *et al.*, 2021). This relationship is supported by Pratama and Wijayanti (2020) and Jauhari *et al.*, (2018). Based on these findings, the proposed hypothesis is:

H6: *LQ45 stock prices mediate the effect of the exchange rate on the Composite Stock Price Index (IHSG).*

2.2.7 The Effect of Inflation on the IHSG through LQ45 Stock Prices

Rising inflation puts pressure on corporate profitability by increasing operating costs and reducing consumer purchasing power. According to Signaling Theory, these conditions generate negative sentiment that drives down the stock prices of LQ45 companies before affecting the IHSG. Chiang (2023) and Situngkir and Batu (2020) demonstrate that inflation affects stock prices, while Bodie *et al.*, (2021) and Darmawan and Haq (2022) explain that changes in the stock prices of large-cap companies influence the movement of the IHSG. Based on these findings, the proposed hypothesis is:

H7: *LQ45 stock prices mediate the effect of inflation on the Composite Stock Price Index (IHSG).*

3. Research Method

This study employs a quantitative approach with an explanatory research design to test the causal relationship between the Exchange Rate (X1) and Inflation (X2) on the Composite Stock Price Index (IHSG) (Y), with the LQ45 Stock Price (Z) serving as the intervening variable. The research subject is the Indonesia Stock Exchange (IDX), while macroeconomic data were obtained from Bank Indonesia (BI) and the Central Statistics Agency (BPS). The study utilized secondary data in the form of monthly time series for the period 2021–2025, as this period represents the dynamics of the Indonesian capital market during the post-pandemic recovery phase through the national economic transition. The study was conducted at the Investment Gallery of the Nitro Makassar Institute of Business and Finance from March to May 2026.

The study population included all companies listed in the LQ45 Index during the observation period. The study employed total sampling, including all LQ45-listed companies, to calculate the average monthly closing stock price as a proxy for the LQ45 Stock Price variable. The Exchange Rate variable was measured using the JISDOR mid-rate (IDR/USD) published by Bank Indonesia; Inflation was measured using the annual (year-on-year) inflation rate published by BPS; the IHSG was measured using the monthly closing value of the Composite Stock Price Index from the Indonesia Stock Exchange; while the LQ45 Stock Price is calculated as the average of the monthly closing prices of all issuers included in the LQ45 index for each observation period. All data were obtained from official publications of the Indonesia Stock Exchange (BEI), Bank Indonesia (BI), and the Central Statistics Agency (BPS) to ensure the validity and consistency of the measurements.

Research data were collected through literature reviews and documentary studies. The literature review involved examining books, scientific articles, and literature related to the capital market, macroeconomic variables, and the theories underlying the research. The documentary study involved collecting monthly historical data on exchange rates, inflation, the IHSG, and LQ45 stock prices from the official databases of the Indonesia Stock Exchange, Bank Indonesia, and the Central Statistics Agency. This approach was chosen because all research variables consist of secondary data published by official institutions, allowing the study to be replicated by other researchers.

Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via the SmartPLS software. This method was selected because it can simultaneously analyze both

direct and indirect relationships within a model involving mediating variables. Given that all research variables are manifest variables (single indicators) derived from secondary data, the analysis focused on evaluating the inner model, including the coefficient of determination (R^2), path coefficients, hypothesis testing via the bootstrapping procedure using t-statistics values (> 1.96) and p-values (< 0.05), as well as testing the mediating effect (indirect effect) of the LQ45 Stock Price on the relationship between the Exchange Rate and Inflation and the IHSG. This approach allows for a comprehensive examination of the transmission mechanism of macroeconomic variables' influence on the IHSG and yields results that can be replicated in future research.

4. Results and Discussion

4.1 Analysis Results

4.1.1 Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide a general overview of the characteristics of the data for each variable under study, without intending to draw conclusions that apply universally. These data characteristics are represented by the minimum and maximum values, the mean, and the standard deviation. Based on the results of processing the monthly time-series data ($N = 60$) for the period from 2021 to 2025 using data analysis software, a summary of descriptive statistics for each variable is presented in Table 1.

Table 1. Description of Research Variable Data

Variable	Minimum	Maximum	Mean	Standard Deviation
Exchange Rate (X1)	14084	16720	15378.467	829.962
Inflation (X2)	-0.760	1.650	0.239	0.388
LQ45 Stock Prices (Z)	3650	4810	4266.25	278.218
IHSG (Y)	5947.46	8646.94	6965.963	551.939

Source: SmartPLS 4 output; Data processed in 2026

Based on Table 1, a brief description of the data for each research variable is presented as follows:

- Exchange Rate (X1): Based on the analysis results, the Exchange Rate variable has a minimum value of 14,084 and a maximum value of 16,720. The mean value of the Exchange Rate during the observation period is 15,378.467, with a standard deviation of 829.962
- Inflation (X2): The Inflation variable recorded a minimum rate of price increase of -0.760% and a maximum rate of 1.650%. The average monthly national inflation rate during the observation period was 0.239%, with a standard deviation of 0.388%.
- LQ45 Stock Prices (Z) The LQ45 Stock Price variable, measured by the average value of all constituent issuers in the index, showed a minimum value of Rp3,650 and reached a maximum value of Rp4,810. The overall average value of the data was Rp4,266.25, with a standard deviation of 278.218.
- Composite Stock Price Index / IHSG (Y) As the dependent variable, the movement of the IHSG on the Indonesia Stock Exchange recorded a lowest (minimum) index value of 5,947.46 points

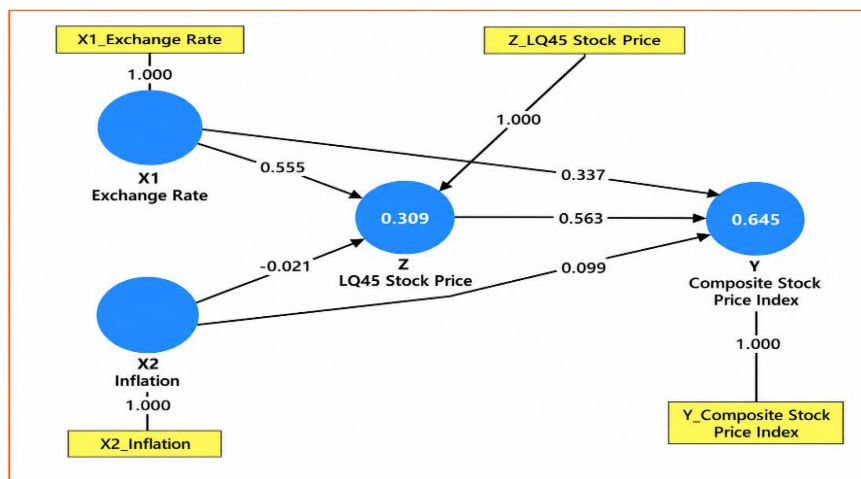
and a highest (maximum) index value of 8,646.94 points. The average IHSG value during the observation period was 6,965.963 points, with a standard deviation of 551.939.

4.1.2 Results of the Structural Model (Inner Model) Evaluation

Structural Model Path Diagram

The first step in evaluating a structural model (inner model) is to create a path diagram. This path diagram visually illustrates the causal relationships, the direction of influence, and the interrelationships among the research variables in accordance with the hypothesized conceptual framework. Based on the results of the PLS algorithm estimation using SmartPLS software on monthly time-series data for the 2021–2025 period, the structural model path diagram for this study is presented in Figure 3 below:

Figure 3. Graph of Path Coefficient Results



Source: SmartPLS 4 output, Data processed in 2026

Based on the visual representation in Figure 3, the structural model of this study can be generally interpreted through two main numerical components, namely:

- Numbers on the Arrows Between Variables: These indicate the values of the path coefficients, which reflect the strength and direction (positive or negative) of the direct relationship between the exogenous variables Exchange Rate (X1) and Inflation (X2) and the endogenous variables LQ45 Stock Price (Z) and IHSG (Y).
- Numbers Inside the Circles of Endogenous Variables: These indicate the values of the coefficient of determination (R^2) for the LQ45 Stock Price (Z) and IHSG (Y) variables. These numbers reflect the percentage of variance in these variables that the model's influencing variables explain.

Overall, Figure 3 shows that the model has been successfully estimated using an integrated path analysis structure, in which the LQ45 Stock Price (Z) is visually positioned as a mediating variable linking the macroeconomic block to the aggregate capital market index. A detailed explanation and statistical significance tests of the values in this path diagram will be elaborated in the following subsection.

Coefficient of Determination (R^2) Test

The coefficient of determination (R^2) quantifies the extent to which variation in an endogenous variable is explained by exogenous variables or other endogenous variables within the structural model. The R^2 value ranges from 0 to 1; the closer it is to 1, the stronger the ability of the independent variables to explain the dependent variable. Based on the estimation results and statistical analysis using SmartPLS, a summary of the coefficients of determination for each endogenous variable in this study is presented in Table 2.

Table 2. Coefficient of Determination (R^2)

Variable	R-square	R-square adjusted
IHSG (Y)	0.645	0.626
Harga Saham LQ45 (Z)	0.309	0.285

Source: SmartPLS 4 output, Data processed in 2026

Based on the table of PLS algorithm estimation results, the R-Square value for the LQ45 Stock Price (Z) variable was 0.309. This indicates that the macroeconomic variables—comprising Exchange Rate (X1) and Inflation (X2)—account for 30.9% of the variation in LQ45 Stock Price fluctuations. The majority of the remaining variation—namely, 69.1% (100% – 30.9%)—is attributable to exogenous factors outside this conceptual model. Furthermore, the Composite Stock Price Index (IHSG) (Y) variable yields an R-Square value of 0.645. This indicates that the integration or simultaneous influence of the Exchange Rate (X1), Inflation (X2), and LQ45 Stock Prices (Z) accounts for 64.5% of the variation in the IHSG. The remaining 35.5% (100% – 64.5%) is determined by other variables not observed in this study.

Referring to Ghozali's (2021) classification of R-Square values—0.75 (strong), 0.50 (moderate), and 0.25 (weak)—the structural model in this study demonstrates good predictive ability. The LQ45 Stock Price (Z) variable falls into the moderate category, while the IHSG (Y) variable is categorized as moderate tending toward strong. These empirical findings provide important insights: over the 2021–2025 observation period, domestic macroeconomic dynamics and the performance of liquid stocks were strong drivers of market sentiment toward stock market movements in Indonesia. The remaining percentage of the effect not explained by the model leaves room for the interpretation that index movements still respond to other catalysts, such as global geopolitical fluctuations, the micro-financial fundamentals of individual issuers, and the direction of international interest rate policy (the Fed).

4.1.3 Hypothesis Testing

After evaluating the structural model (inner model) using the coefficient of determination (R^2), the next step is to conduct hypothesis testing. This test aims to empirically prove the relationship and direction of influence between the variables formulated in the research hypotheses. In this study, hypothesis testing was conducted by analyzing path coefficients obtained via bootstrapping at a 95% confidence level ($\alpha = 0.05$). The decision to accept or reject the hypothesis was made by comparing the T-statistic values with the critical value of 1.96 and ensuring that the P-values were below 0.05. If the T-statistic is greater than 1.96 and the P-value is less than 0.05, then the research hypothesis is statistically supported (i.e., accepted). The results of the structural model testing, which detail the direct effects of the Exchange Rate (X1), Inflation (X2), LQ45 Stock Prices (Z), and the IHSG (Y), are presented in Table 3 below:

Table 3. Results of the Direct Effect Test (Path Coefficient)

	Original Sample (O)	Sample Mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Exchange Rate (X1) → IHSG (Y)	0.337	0.358	0.117	2.877	0.004
Exchange Rate (X1) → LQ45 Stock Prices (Y)	0.555	0.573	0.093	6.003	0.000
Inflation (X2) → IHSG (Y)	0.099	0.107	0.094	1.050	0.294
Inflation (X2) → LQ45 Stock Prices (Y)	-0.021	-0.009	0.151	0.136	0.892
LQ45 Stock Prices (Z) → IHSG (Y)	0.563	0.547	0.117	4.834	0.000

Source: SmartPLS 4 output, Data processed in 2026

Based on Table 3 presented earlier, an analytical decision can be made as follows: if the P-values are < 0.05 or the T-statistics are > 1.96, then the exogenous variable is deemed to have a significant effect on the endogenous variable. Conversely, if the P-values are > 0.05 or the T-statistics are < 1.96, then the exogenous variable is deemed to have no significant effect on the endogenous variable. Based on these decision criteria, the relationship between each exogenous variable and the endogenous variable for the models in the respective studies can be described as follows:

- In the table of path coefficients and significance values above, hypothesis H1 states that the exchange rate affects the LQ45 stock price. The test results show an Original Sample value of 0.555, a T-statistic of 6.003 (> 1.96), and a P-value of 0.000 (< 0.05). Since the probability value is far smaller than the significance threshold of 0.05, H1 is accepted. This means that the exchange rate has a positive and significant effect on fluctuations in LQ45 stock prices during the observation period.
- In the table of path coefficients and significance values above, hypothesis H2 states that inflation affects LQ45 stock prices. The test results show an Original Sample value of -0.021, a T-statistic of 0.136 (< 1.96), and a P-value of 0.892 (> 0.05). Since the p-value exceeds the significance threshold of 0.05, H2 is rejected. This means that the inflation rate shows a negative relationship, but its effect on the movement of LQ45 stock prices during the observation period is not significant.
- In the table of path coefficients and significance values above, hypothesis H3 states that the exchange rate affects the IHSG. The results of the bootstrapping procedure show an Original Sample value of 0.337, a T-statistic of 2.877 (> 1.96), and a P-value of 0.004 (< 0.05). Since these values meet the significance criteria, H3 is accepted. This indicates that the Exchange Rate has a direct, positive, and significant impact on IHSG appreciation.
- In the table of path coefficients and significance values above, hypothesis H4 states that inflation affects the IHSG. The data analysis results show a positive Original Sample value of 0.099 with a T-statistic of 1.050 (< 1.96) and a P-value of 0.294 (> 0.05). Therefore, H4 is rejected. This indicates that the dynamics of domestic macroeconomic inflation have not yet made a significant direct contribution to the IHSG's movement.
- In the table of path coefficients and significance values above, Hypothesis H5 states that LQ45 stock prices influence the IHSG. The bootstrapping results show an Original Sample value of 0.563, a very high T-statistic of 4.834 (> 1.96), and a P-value of 0.000 (< 0.05). This confirms that

H5 is accepted. Empirically, the movement of LQ45 stock prices is proven to have a positive and highly significant effect on the IHSG, indicating that strength in the blue-chip stock cluster is indeed the primary driver of the aggregate market index's rise.

4.1.4 Mediation Effect Test

In addition to testing direct effects, this study also examines the presence of a mediation effect to understand the transmission mechanism of influence between the exogenous variables (Exchange Rate (X1) and Inflation (X2)) and the endogenous variable IHSG (Y) through the mediating variable, namely the LQ45 Stock Price (Z). This analysis was conducted to provide an empirical explanation of whether the LQ45 Stock Price (Z) variable functions as a transmission channel or mediating mechanism in mediating the relationship between macroeconomic indicators and the aggregate stock market index. The mediation effect was tested using the Specific Indirect Effects analysis with bootstrapping. The significance criteria used were a T-statistic > 1.96 and a P-value < 0.05, indicating that the indirect effects between variables are statistically significant. This test determines whether the resulting influence mechanism constitutes full, partial, or no mediation.

Detailed results regarding the estimates of specific indirect effects and their significance values are presented in Table 4.

Table 4. Results of the Indirect Effect Test (Mediation Effect)

	Original Sample (O)	Sample Mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Exchange Rate (X1) → LQ45 Stock Prices (Z) → IHSG (Y)	0.313	0.309	0.069	4.547	0.000
Inflation (X2) → LQ45 Stock Prices (Z) → IHSG (Y)	-0.012	-0.008	0.083	0.141	0.888

Source: SmartPLS 4 output, Data processed in 2026

Based on Table 4 presented earlier, an analytical decision can be made as follows: if the P-values are < 0.05 or the T-statistics are > 1.96, then the mediating variable is deemed to have a significant effect in mediating the relationship between the exogenous and endogenous variables. Conversely, if the P-values are > 0.05 or the T-statistics are < 1.96, then the mediating variable is deemed to have no significant mediating effect. Based on these decision criteria, each indirect relationship between the exogenous and endogenous variables through the mediation process in the model used in this study can be described as follows:

- In the mediation effect test table and significance values above, the test results show an Original Sample value of 0.313 with a T-statistic of 4.547 (> 1.96) and a P-value of 0.000 (< 0.05). Since the probability value is far smaller than the significance threshold of 0.05, H6 is accepted. This proves that the LQ45 Stock Price (Z) serves as a transmission channel or mediator (partial mediation), amplifying the exchange rate's influence on the JCI's movement. This means that changes in the exchange rate not only have a direct impact on the aggregate index but are also tangibly transmitted through fluctuations in the prices of liquid stocks first.
- In the mediation effect test table and significance values presented above, the test results show an Original Sample value of -0.012 with a T-statistic of 0.141 (< 1.96) and a P-value of 0.888.

Since this value is well above the significance threshold of 0.05, H7 is rejected. Empirically, the LQ45 Stock Price (Z) did not mediate the relationship between inflation and the IHSG (i.e., no mediation). This indicates that the pathway by which inflation influences the aggregate stock market index does not operate, or is not mediated, through fluctuations in the stock prices of the LQ45 group during this observation period.

4.2 Discussion

4.2.1 The Effect of the Exchange Rate (X1) on LQ45 Stock Prices (Z)

The results of the study show that the exchange rate has a positive effect on LQ45 stock prices, indicating that a strengthening of the rupiah is met with an increase in the stock prices of companies included in the LQ45 Index. This finding suggests that exchange rate stability is one of the macroeconomic indicators investors consider when evaluating a company's prospects, particularly for large-cap issuers engaged in international trade and possessing high liquidity. This finding aligns with Signaling Theory, which explains that changes in macroeconomic conditions serve as external signals that investors use to form expectations regarding a company's performance. An appreciating exchange rate is perceived as a positive signal because it lowers the cost of importing raw materials, reduces the burden of foreign currency liabilities, and improves a company's profitability outlook. These fundamental improvements boost investor confidence, leading to increased demand for LQ45 stocks and subsequent price rises.

The results of this study also support the Efficient Market Hypothesis, which holds that publicly available macroeconomic information is immediately reflected in stock prices. As a group of stocks with large market capitalizations and high trading volumes, companies in the LQ45 Index tend to respond more quickly to changes in economic information than other stock groups. This indicates that exchange rate fluctuations are a fundamental factor influencing stock pricing through efficient market mechanisms. The findings of this study are consistent with the results of Suwanda *et al.*, (2024), which show that exchange rate changes affect the stock prices of LQ45 companies. That study finds that companies with high exposure to international trade and foreign currency liabilities are more sensitive to exchange rate changes because such fluctuations directly affect operating costs, profitability, and firm value. Thus, the results of this study strengthen the empirical evidence that exchange rates are an important determinant of LQ45 stock prices and reaffirm the role of macroeconomic variables as signals influencing investor behavior in the Indonesian capital market.

4.2.2 The Effect of the Inflation Rate (X2) on LQ45 Stock Prices (Z)

The results of the study show that inflation does not affect LQ45 stock prices. This finding indicates that changes in the inflation rate during the study period have not influenced investors' decisions in evaluating the stocks included in the LQ45 Index. This suggests that large-cap companies possess a relatively strong ability to maintain their financial performance despite fluctuations in the inflation rate. The characteristics of LQ45 constituents—dominated by companies with strong fundamentals, large market shares, and stable financial positions—enable these firms to leverage pricing power, operational efficiency, and hedging strategies to mitigate the impact of rising production costs. Consequently, inflationary pressures do not directly alter investors' expectations regarding a company's prospects; thus, movements in LQ45 stock prices tend to be more influenced by corporate fundamentals than by short-term inflation changes.

These findings can be explained through Signaling Theory and the Efficient Market Hypothesis. From the perspective of Signaling Theory, inflation serves as a strong signal only if it significantly alters investors' perceptions of a company's earnings prospects. However, for LQ45 companies, the impact of inflation is relatively manageable through operational capabilities and business strategies; thus, information about rising inflation is not interpreted by the market as a negative signal. Furthermore, the Efficient Market Hypothesis holds that investors generally anticipate inflation news before it is officially announced, so its impact is already reflected in stock prices and no longer triggers significant price changes at the time of data publication. These research results are consistent with the findings of Jafar (2023), who stated that inflation does not have a significant effect on the stock prices of companies in the LQ45 Index because investors place greater emphasis on companies' fundamentals than on inflation fluctuations when making investment decisions. Thus, these findings reinforce the view that, among blue-chip stocks, a company's fundamental strength can mitigate the impact of inflation changes on stock price formation in the Indonesian capital market.

4.2.3 *The Effect of the Exchange Rate (X1) on the Composite Stock Price Index (Y)*

The research results show that the exchange rate has a positive effect on the Composite Stock Price Index (IHSG). This finding indicates that the stability of the rupiah exchange rate is one of the factors shaping investor confidence in the Indonesian capital market as a whole. A strengthening exchange rate is perceived as a reflection of more stable macroeconomic conditions, thereby boosting investor confidence in investing in equity instruments. These conditions drive increased stock-buying activity across various industrial sectors, ultimately strengthening the IHSG as an indicator of the national capital market's performance. Thus, the research results support the hypothesis that exchange rate changes are a key determinant of IHSG movements. This finding can be explained by the Portfolio Balance Approach, which holds that changes in the exchange rate influence international investors' portfolio allocation decisions because they are related to exchange rate risk and the rate of return on investment. When the rupiah is relatively strong and stable, investment risk in the domestic market decreases, thereby encouraging capital inflows into the stock market. From the perspective of Signaling Theory, a strengthening exchange rate also signals positive national economic stability, boosting investor optimism about corporate prospects and the capital market. These research results are consistent with the findings of Kewal (2012), who stated that the exchange rate has a positive effect on the IHSG because exchange rate stability enhances investor confidence and creates a more conducive investment climate. Thus, this study reinforces the empirical evidence that the exchange rate is a macroeconomic indicator that plays a crucial role in shaping the dynamics of the IHSG by improving market sentiment and investment flows on the Indonesia Stock Exchange.

4.2.4 *The Effect of the Inflation Rate (X2) on the Composite Stock Price Index (Y)*

The results of the study indicate that inflation does not affect the Composite Stock Price Index (IHSG). This finding suggests that changes in the inflation rate during the study period have not been sufficient to alter investor behavior or the aggregate direction of the Indonesian capital market. This suggests that investors do not consider inflation a primary factor in their investment decisions, particularly when the inflation rate remains within a relatively stable, controlled range. In such situations, the market tends to be more responsive to other macroeconomic indicators that have a more direct impact on corporate prospects and investment returns, such as exchange rates, monetary policy, and global economic

dynamics. Thus, inflation stability means that changes are not strong enough to influence the collective formation of stock prices, as reflected in the IHSG. This finding can be explained by the Efficient Market Hypothesis, which states that public economic information—once anticipated by market participants—is immediately factored into stock prices before it is officially announced. Therefore, when inflation moves in line with market expectations and remains within Bank Indonesia's target range, this information is no longer perceived as an information shock capable of significantly altering investor sentiment. From the perspective of Signaling Theory, inflation also fails to send a sufficiently strong negative signal about corporate prospects as long as national economic fundamentals remain sound and companies can maintain their performance. The results of this study are consistent with the findings of Faizah & Mudjijah (2025), who stated that inflation does not affect the IHSG because investors place greater emphasis on companies' fundamentals and the overall economic outlook than on short-term inflation fluctuations. Thus, this study reinforces the empirical evidence that, under relatively stable economic conditions, inflation is not a primary determinant of IHSG movements on the Indonesia Stock Exchange.

4.2.5 The Effect of LQ45 Stock Prices (Z) on the Composite Stock Price Index (Y)

The study's results show that LQ45 stock prices have a positive effect on the Composite Stock Price Index (IHSG). This finding indicates that changes in the stock prices of companies in the LQ45 Index play a significant role in shaping the direction of the IHSG, the primary indicator of the Indonesian capital market's performance. This can be understood because LQ45-listed companies are characterized by large market capitalization, high liquidity, and active trading frequency; consequently, changes in stock prices within this group exert a relatively dominant influence on aggregate index value changes. Thus, an increase in LQ45 stock prices reflects growing investor optimism about the companies' prospects and, in turn, drives up the IHSG. This finding aligns with Signaling Theory, which posits that rising stock prices of leading companies signal positive corporate fundamentals and economic prospects, thereby boosting investor confidence and capital market activity. Furthermore, the IHSG's construction mechanism—which employs a market capitalization-weighted approach—means that stocks with large market capitalizations, such as LQ45 constituents, carry greater weight than other stocks in determining index movements. Consequently, any change in stock prices within the LQ45 group is reflected more rapidly and significantly in changes to the IHSG. The results of this study are consistent with the findings of Putri & Muliyani (2025), who stated that stock price movements of large-cap companies are strongly related to changes in the IHSG, as this group of stocks is the primary driver of dynamics in the Indonesian capital market. Thus, this study reinforces the empirical evidence that LQ45 stock prices serve as a key indicator of market sentiment and as a primary determinant of IHSG movements.

4.2.6 The Effect of the Exchange Rate (X1) on the IHSG (Y) Mediated by LQ45 Stock Prices (Z)

The research results show that LQ45 stock prices mediate the effect of the exchange rate on the Composite Stock Price Index (IHSG). This finding indicates that changes in the exchange rate do not directly affect aggregate capital market movements but are first transmitted through changes in the stock prices of companies included in the LQ45 Index. This mechanism demonstrates that large-cap issuers act as a link between changes in macroeconomic conditions and changes in capital market performance. When the exchange rate is more stable, investor expectations regarding corporate

prospects improve, thereby driving up LQ45 stock prices, which in turn strengthen the IHSG as an indicator of the Indonesian capital market.

These findings can be explained through Signaling Theory and the Efficient Market Hypothesis. From the perspective of Signaling Theory, exchange rate changes serve as macroeconomic signals that influence investors' perceptions of risk and corporate prospects. These signals are first reflected in LQ45 stocks because this group of issuers has large market capitalization, high liquidity, and is the primary target for institutional investment. Furthermore, in accordance with the Efficient Market Hypothesis, information regarding exchange rate changes is immediately reflected in stock prices before ultimately influencing the movement of the overall market index. Thus, LQ45 stock prices function as a transmission mechanism linking changes in macroeconomic conditions to the dynamics of the IHSG. The results of this study are consistent with the findings of Mark *et al.*, (2025), who state that large-cap stocks act as a transmission channel in conveying the impact of macroeconomic stability and monetary policy on capital market performance. Consequently, this study strengthens the empirical evidence that the LQ45 Stock Price is not only influenced by exchange rate changes but also serves as a crucial channel for transmitting the impact of exchange rates on aggregate IHSG movements.

4.2.7 The Effect of Inflation (X2) on the IHSG (Y) Through the Mediation of LQ45 Stock Prices (Z)

The research results show that LQ45 stock prices do not mediate the effect of inflation on the Composite Stock Price Index (IHSG). This finding indicates that changes in the inflation rate do not significantly affect the stock prices of LQ45 companies; thus, there is no transmission mechanism that passes the effect of inflation to IHSG movements. This suggests that companies included in the LQ45 Index have relatively strong fundamentals and are well-equipped to manage the impact of rising inflation-driven costs; consequently, changes in the inflation rate do not directly alter investors' perceptions of the companies' value. As a result, LQ45 stock prices fail to serve as an intervening variable in bridging the relationship between inflation and IHSG. This finding can be explained through Signaling Theory and the Efficient Market Hypothesis. From the perspective of Signaling Theory, inflation will serve as a signal influencing the market only if it can alter investors' expectations about a company's profit prospects. However, for LQ45 companies, the impact of inflation can be relatively mitigated through operational efficiency, the ability to implement pricing strategies, and the strength of the companies' fundamentals; thus, inflation is not perceived as sufficiently strong information to alter investment decisions. Furthermore, the Efficient Market Hypothesis posits that information about inflation has already been anticipated by market participants and reflected in stock prices before it is officially announced; thus, it does not trigger a subsequent response that could influence the IHSG through changes in LQ45 stock prices. The results of this study are consistent with the findings of Suwadji *et al.*, (2024), who stated that the stock prices of large-cap companies do not serve as a transmission channel for the impact of inflation on the capital market because investors place greater emphasis on a company's fundamental prospects and other macroeconomic factors deemed more relevant in determining their investment decisions. Thus, this study reinforces empirical evidence that the relationship between inflation and the IHSG is not mediated by LQ45 stock prices as long as companies' fundamentals remain sound and inflation remains at a level that the market can anticipate.

5. Concluding Remarks and Recommendation

This study aims to analyze the effects of the exchange rate and inflation on the Composite Stock Price Index (IHSG), with LQ45 stock prices as an intervening variable, during the 2021–2025 period using a quantitative approach and Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that the exchange rate has a positive effect on LQ45 stock prices and the IHSG, whereas inflation does not affect either variable. Furthermore, the LQ45 stock prices were found to have a positive effect on the IHSG and mediate the effect of the exchange rate on the IHSG. Conversely, the LQ45 stock prices do not mediate the relationship between inflation and the IHSG. These findings indicate that exchange rate stability is a more dominant macroeconomic factor than inflation in influencing the dynamics of the Indonesian capital market, particularly through changes in the stock prices of large-cap companies included in the LQ45 Index.

This study makes a theoretical contribution by reinforcing Signaling Theory and the Efficient Market Hypothesis, which hold that macroeconomic information does not always affect markets directly but can be transmitted through changes in the stock prices of leading companies. The findings on the mediating role of LQ45 stock prices expand our understanding of the transmission mechanism by which macroeconomic variables influence the IHSG in the Indonesian capital market. From a practical perspective, the research results have implications for companies to strengthen their exchange rate risk management, particularly through strategies to mitigate foreign exchange exposure. In contrast, for investors, movements in exchange rates and LQ45 stock prices can serve as key indicators for formulating investment strategies and anticipating market trends. From a policy perspective, the findings highlight the importance of maintaining exchange rate stability as a means of fostering a conducive investment climate and enhancing investor confidence in the Indonesian capital market.

This study has several limitations. First, the analysis relies on only two macroeconomic variables—exchange rates and inflation—and thus does not fully capture all macroeconomic factors influencing the IHSG. Second, the scope of the study is limited to companies included in the LQ45 Index during the 2021–2025 period; therefore, the findings cannot yet be generalized to all sectors or stock indices on the Indonesia Stock Exchange. Therefore, future research is recommended to include additional macroeconomic variables, such as the benchmark interest rate, economic growth, money supply, or global commodity prices, and to expand the study's scope to include other indices, such as the IDX30, IDX80, or sectoral indices. The use of a longer observation period and analytical methods that compare multiple index groups is also expected to provide a more comprehensive understanding of the transmission mechanisms by which macroeconomic variables affect the performance of the Indonesian capital market.

Statement of Use of Generative AI

During the preparation of this work, the author used generative artificial intelligence tools to support the scientific writing process. Grammarly was used to check grammar, refine writing style, and improve clarity in scientific writing. All interpretations, analyses, and conclusions presented in this study are the sole responsibility of the author.



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