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The Impact of Macroeconomic Variables and Political Events on the Jakarta Islamic Index

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ABSTRACT

The inconsistency of research findings regarding the influence of macroeconomic variables on the Islamic stock market, along with the increasing role of non-economic factors such as political events, indicates that the dynamics of the Jakarta Islamic Index (JII) cannot be fully explained solely by macroeconomic indicators. This study aims to analyze the effects of inflation, the rupiah exchange rate, the BI Rate, sectoral production indices (mining, manufacturing, and construction), foreign exchange reserves, and political events on the JII during the 2022–2024 period using monthly time-series data. This study employs a multiple linear regression model with the Efficient Market Hypothesis and Behavioral Finance as its theoretical foundations. The results indicate that the BI Rate and sectoral production indices have a positive and significant effect on the JII, while inflation, the exchange rate, and foreign exchange reserves do not have a significant effect. In addition, political events, proxied by the official certification of the presidential election results, are found to have a positive and significant effect on the JII. These findings suggest that non-economic factors play an important role in influencing the dynamics of the Islamic stock market. Therefore, market analysis should consider not only fundamental factors but also investor expectations and sentiment.

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1. Introduction

In a country's economic governance, the capital market plays a crucial role as a driver of investment and economic growth. From a macroeconomic perspective, stock index movements are often used as indicators reflecting a country's real economic conditions, as they represent investors' expectations regarding corporate performance and future economic prospects (Mankiw, 2013).

In the context of Islamic finance, the Islamic stock market serves as an investment alternative that complies with Sharia principles, including the prohibition of *riba*

*Harahap

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(interest), *gharar* (uncertainty), and *maysir* (gambling). One of the primary indicators of the Islamic stock market in Indonesia is the Jakarta Islamic Index (JII), which represents the performance of 30 Sharia-compliant stocks with large market capitalization and high liquidity (Indonesia Stock Exchange, 2025). The movement of this index is influenced by various factors, including fundamental factors such as macroeconomic conditions and non-economic factors such as political events.

Although numerous studies have examined the influence of macroeconomic factors on the Islamic stock market, the empirical findings remain inconsistent. Regarding inflation, Prehatin & Haryono (2024) and Santosa & Wisnu (2018) found that inflation does not have a significant effect on the JII, whereas Yaspa et al., (2024) and Pantas (2017) reported that inflation significantly affects the JII. Concerning the exchange rate and the Bank Indonesia 7-Day Reverse Repo Rate (BI7DRR), Santosa & Wisnu (2018) and Karim et al., (2020) found significant effects on the JII. However, Primartha & Diana (2021) and Annisa et al., (2023) reported significant negative effects, while Sjam et al., (2023) found that the BI7DRR has no significant effect on the JII. These findings indicate that the relationship between macroeconomic variables and the stock market is not stable but rather depends on economic conditions and the period under study.

On the other hand, studies on political events have produced relatively consistent findings, showing that events such as the official certification of presidential election results influence stock market movements. Suhadi & Maharany (2025) found significant effects on abnormal returns and trading volume in the JII. These findings are supported by Anjas Sari & Nurazi (2025) as well as Rochimah & Yuliana (2024), who also documented market reactions to political events. Nevertheless, most of these studies have been conducted separately and have not integrated macroeconomic variables and political events within a single comprehensive analytical framework, particularly in the context of Islamic stock indices.

Theoretically, this study is grounded in the Efficient Market Hypothesis (EMH), which states that stock prices reflect all available information, including public information such as macroeconomic data (Fama, 1970). Within this framework, changes in macroeconomic variables such as inflation, the BI7DRR, exchange rates, production indices, and foreign exchange reserves are expected to be rapidly incorporated into the market and reflected in the movement of the JII. However, under conditions of uncertainty, particularly those arising from political dynamics, the assumption of investor rationality underlying this theory may not always hold.

Therefore, this study also adopts the Behavioral Finance perspective, which emphasizes that investor decisions are not always rational but are influenced by psychological factors such as perceptions, emotions, and cognitive biases (Shleifer, 2000). In this context, political events such as the official certification of presidential election results may trigger changes in investor expectations regarding economic stability and future policy directions, thereby generating market reactions that are not entirely based on macroeconomic fundamentals.

This study offers novelty by integrating macroeconomic variables and political events within a single analytical framework to explain the dynamics of the JII. In addition, this study employs sectoral production indices covering the mining, manufacturing, and construction sectors as proxies for real-sector economic activity that are more specific and relevant to Indonesia's economic structure. This approach is

expected to provide a more comprehensive understanding of JII dynamics, particularly during the post-pandemic period.

This study aims to analyze and empirically examine the effects of inflation, the BI7DRR, the rupiah exchange rate, sectoral production indices, foreign exchange reserves, and political events represented by the official certification of presidential election results on the performance of the JII during the 2022–2024 period. Academically, this study is expected to enrich the literature on the Islamic stock market by integrating macroeconomic and non-economic factors within a comprehensive analytical framework. Practically, the findings are expected to serve as a reference for investors and policymakers in understanding the dynamics of the Islamic stock market and supporting investment and policy decisions that are more adaptive to changing economic and political conditions.

2. Literature Review

2.1 Inflation

According to macroeconomic theory, rising inflation can reduce consumers' purchasing power and lead to higher interest rates, which may ultimately suppress stock market performance (Mankiw, 2013). A study by Prehatin & Haryono (2024) found that inflation does not have a significant effect on the JII in the short term, indicating that the market does not directly respond to changes in inflation as relevant information. Similar findings were reported by Santosa & Wisnu (2018), who concluded that inflation has no significant effect on the movement of Islamic stocks. However, different findings were reported by Santosa & Wisnu (2018) and Yaspa et al. (2024) , who found that inflation has a significant negative effect on the JII, suggesting that an increase in inflation tends to reduce the performance of the stock index. This result is consistent with the findings of Pantas (2017) , who also reported that inflation has a significant negative impact on the JII. These differing findings indicate that the market's response to inflation is not uniform but is influenced by economic conditions, inflation levels, and the monetary policies prevailing during the period of study. Theoretically, rising inflation may reduce purchasing power and increase firms' production costs, thereby lowering profitability and exerting a negative impact on stock prices. Therefore, the following hypothesis is proposed:

H_1: Inflation is expected to have a negative effect on the JII.

2.2 Rupiah–US Dollar Exchange Rate

The exchange rate is one of the most important macroeconomic indicators in an open economy, as it can influence overall stock market performance (Mankiw, 2013). Changes in the exchange rate may affect export and import competitiveness as well as corporate performance, which ultimately impacts stock prices and stock market indices. In the context of the JII, Santosa & Wisnu (2018) found that the rupiah exchange rate has a significant effect on the JII, indicating that exchange rate movements are among the factors considered by investors when making investment decisions. Similar findings were reported by Karim et al. (2020), who confirmed the significant influence of the exchange rate on the movement of Islamic stock indices. However, Primartha & Diana (2021) found that the exchange rate has a significant negative effect on the JII, suggesting that rupiah depreciation tends to be perceived negatively by the market.

This result is supported by Annisa et al. (2023), who also reported a significant negative effect of the exchange rate on the JII. These differing findings indicate that the market's response to exchange rate fluctuations is not uniform but may be influenced by economic conditions, the composition of firms included in the index, and the study period under examination. Therefore, the following hypothesis is proposed:

H_2: The exchange rate is expected to have a negative effect on the JII.

2.3 Bank Indonesia 7-Day Reverse Repo Rate (BI7DRR)

The Bank Indonesia 7-Day Reverse Repo Rate (BI7DRR) is a monetary policy instrument used by Bank Indonesia to control inflation and maintain economic stability (Bank Indonesia, 2023). Changes in the BI7DRR affect interest rates in financial markets, which in turn influence investment decisions and stock market performance. Teguh Prasetyo & Hariyani (2022) found that the BI7DRR has a significant negative effect on JII stock returns, indicating that increases in the BI7DRR tend to be perceived negatively by the market. Meanwhile, Sjam et al. (2023) found that the BI7DRR has no significant effect on the JII, suggesting that under certain conditions the market does not directly respond to changes in the BI7DRR as a primary factor in investment decision-making. On the other hand, Harahap (2019) and Karim et al. (2020) found that the BI7DRR significantly affects the JII, indicating that monetary policy remains an important factor in determining stock market movements. These differing findings suggest that the effect of the BI7DRR on the JII is not consistent but is influenced by economic conditions, market stability, and the monetary policy environment prevailing during the study period. Therefore, the following hypothesis is proposed:

H_3: The BI7DRR is expected to have a negative effect on the JII.

2.4 Sectoral Production Index

The sectoral production index, which covers the mining, manufacturing, and construction sectors, is an important indicator of economic activity that may influence the performance of the JII. From a macroeconomic perspective, increases in real-sector output are associated with economic growth and higher corporate profits (Mankiw, 2013), thereby encouraging positive investor expectations regarding stock performance. Empirically, most studies have used the Industrial Production Index (IPI) as a proxy for real-sector activity. Endres (2020) found that production indices have a significant relationship with stock market movements. However, the use of the IPI has limitations because it represents only the manufacturing sector and therefore may not adequately reflect the economic structure of developing countries such as Indonesia, where the mining and construction sectors also play important roles. Rusydiana et al. (2023) showed that real-sector performance is closely related to stock market performance.
Therefore, this study adopts a more comprehensive approach by combining sectoral production indices as proxies for economic activity. This approach is expected to provide more comprehensive and contextually relevant empirical evidence regarding the dynamics of the JII. Therefore, the following hypothesis is proposed:

H_4: The sectoral production index is expected to have a positive effect on the JII.

2.5 Foreign Exchange Reserves

Foreign exchange reserves are one of the key indicators in maintaining a country's macroeconomic stability and reflect its ability to meet external obligations, such as imports and external debt payments. From a macroeconomic perspective, a high level of foreign exchange reserves indicates strong external resilience and can enhance investor confidence in economic stability (Mankiw, 2013). In the context of the Indonesian stock market, Zakaria et al. (2018) found that foreign exchange reserves have a positive effect on the Composite Stock Price Index (CSPI), indicating that increases in foreign exchange reserves can stimulate stock price growth through enhanced investor confidence and improved balance of payments conditions. This finding is consistent with Rizki (2021), who reported that foreign exchange reserves have a significant positive effect on CSPI returns, suggesting that increases in foreign exchange reserves can improve stock market performance. These findings indicate that foreign exchange reserves tend to be positively perceived by the market because they reflect greater economic stability. However, studies examining the effect of foreign exchange reserves on the JII remain relatively limited. Therefore, the following hypothesis is proposed:

H_5: Foreign exchange reserves are expected to have a positive effect on the JII.

2.6 Political Events

Political events are among the non-economic factors that may influence stock market dynamics through changes in investor expectations and perceptions regarding future economic conditions. From a Behavioral Finance perspective, uncertainty arising from political dynamics can affect investment decisions because investors do not always act rationally when responding to uncertain information (Al-Thaqeb & Algharabali, 2019). This argument is supported by Baker et al. (2016), who found that policy uncertainty associated with political events is correlated with increased stock market volatility and reduced investment activity. Suhadi & Maharany (2025) found that the official certification of presidential election results affects abnormal returns and stock trading volume within the JII, indicating that investors react to political information. Similar findings were reported by Anjas Sari & Nurazi (2025), who documented significant cumulative abnormal returns during the election period, as well as Rochimah & Yuliana (2024), who found that political events influence sectoral stock returns with varying degrees of impact. These findings suggest that market responses to political events are not uniform but are influenced by investor expectations and sentiment regarding future economic prospects. Therefore, the following hypothesis is proposed:

H_6: Political events are expected to have a positive effect on the JII.

3. Research Method

This study employs a quantitative approach with an associative research design, aiming to examine and analyze the effects of macroeconomic variables, including inflation, the Bank Indonesia 7-Day Reverse Repo Rate (BI7DRR), the rupiah exchange rate, monthly production indices (mining, manufacturing, and construction sectors), as well as a political sentiment variable represented by the official certification of the 2024 presidential election results, on the Jakarta Islamic Index (JII) during the 2022–2024

period. A quantitative approach was selected because it enables the objective and systematic measurement of relationships among variables through numerical data that can be statistically analyzed (Sugiyono, 2013).

The data used in this study consist of secondary monthly time-series data obtained from various official sources, including Statistics Indonesia (BPS), Investing.com, Kontan.id, Bank Indonesia (BI), the Indonesia Stock Exchange (IDX), and the General Elections Commission (KPU). Monthly data were selected to ensure consistency across the observation period and to reduce seasonal fluctuations that may affect model stability (Gujarati, 2021).

Data were collected using a documentation technique by accessing and downloading data from the official portals of the respective institutions. The variables employed in this study consist of one dependent variable, namely the JII (monthly closing price), five independent variables, namely inflation, the BI7DRR, the IDR/USD exchange rate, the sectoral production index (mining, manufacturing, and construction sectors), and foreign exchange reserves, as well as one dummy variable representing the official certification of the 2024 presidential election results. All data were organized in a time-series format and processed using EViews 12 software, which facilitates statistical analysis in identifying the effects of each variable on the JII.

The analytical technique employed in this study is multiple linear regression, which aims to examine both the simultaneous and partial effects of the independent variables on the dependent variable. In addition, classical assumption tests were conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure the validity and reliability of the regression results. The t-test was used to examine the partial effect of each independent variable, while the F-test was employed to assess their joint significance. Furthermore, the coefficient of determination (R^2) was used to measure the extent to which the independent variables explain variations in the dependent variable within the model.

Through this approach, the study is expected to provide empirical evidence regarding the relationship between macroeconomic indicators and political sentiment and the performance of the Islamic stock index in Indonesia, particularly the JII. The findings are also expected to serve as a reference for investors and regulators in making strategic decisions within the Islamic capital market.

4. Result

4.1 Classical Assumption Tests

Before conducting the regression analysis, several classical assumption tests were performed to ensure the validity and reliability of the regression model. These tests include normality, heteroscedasticity, autocorrelation, and multicollinearity tests. The results of the classical assumption tests are presented in Table 4.1.

Tabel 4.1 Summary of Classical Assumption Tests

Assumption Test	Result	Criterion	Conclusion
Jarque–Bera Probability	0.060	p > 0.05	Normal Distribution
White Test Probability	0.287	p > 0.05	No Heteroscedasticity
Breusch–Godfrey LM Probability	0.884	p > 0.05	No Autocorrelation
Highest VIF (BI7DRR)	3.146	VIF < 10	No Multicollinearity

Source : Author's Calcultaion

Table 4.1 shows that all classical assumption tests satisfy the required criteria. The Jarque–Bera probability value is 0.060, which is greater than the significance level of 0.05, indicating that the residuals are normally distributed. The White test probability value of 0.287 suggests the absence of heteroscedasticity, while the Breusch–Godfrey LM test probability value of 0.884 indicates that the model is free from autocorrelation. In addition, the highest VIF value is 3.146, which is below the threshold value of 10, indicating that no multicollinearity problem exists among the independent variables. Therefore, the regression model satisfies all classical assumption requirements and is suitable for further analysis.

4.2 Multiple Linear Regression Analysis

After the classical assumption requirements were satisfied, multiple linear regression analysis was conducted to examine the effects of inflation, the Rupiah–US Dollar exchange rate, the BI7DRR, the sectoral production index, foreign exchange reserves, and political events on the Jakarta Islamic Index (JII). The regression estimation results are presented in Table 4.2.

Tabel 4.2 Multiple Linear Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	133.434	172.787	0.772	0.446
INF	-0.042	2.416	-0.018	0.986
EXR	-0.004	0.008	-0.457	0.651
BI7DRR	18.555	4.055	4.576	0.000
SPI	0.881	0.338	2.610	0.014
FER	0.000	0.000	1.428	0.164
POL	45.029	8.991	5.008	0.000

Source: Author's Estimation

Based on the estimation results, the regression equation can be expressed as follows:

$$JII = 133.434 - 0.042INF - 0.004EXR + 18.555BI7DRR + 0.881SPI + 0.000FER + 45.029POL + \varepsilon$$

where INF denotes inflation, EXR represents the Rupiah–US Dollar exchange rate, BI7DRR refers to the Bank Indonesia 7-Day Reverse Repo Rate, SPI denotes the sectoral production index, FER represents foreign exchange reserves, and POL represents political events.

Table 4.2 presents the estimated coefficients of the multiple linear regression model. The results indicate that INF and EXR have negative coefficients, whereas BI7DRR, SPI, FER, and POL have positive coefficients. Based on the statistical significance of the estimated coefficients, BI7DRR, SPI, and POL significantly affect the JII at the 5 percent significance level, while INF, EXR, and FER do not exhibit significant effects. These findings suggest that both macroeconomic and political factors contribute to the variation in the JII during the study period. A summary of the hypothesis testing results is presented in Table 4.3.

4.3 Hypothesis Testing

To evaluate the proposed hypotheses, the significance of each independent variable was assessed using the p-value criterion at the 5 percent significance level. The summary of the hypothesis testing results is presented in Table 4.3.

Tabel 4.3 Summary of Hypothesis Testing Result

Hypothesis	Variable	p-value	Decision
H1	INF	0.986	Rejected
H2	EXR	0.651	Rejected
H3	BI7DRR	0.000	Supported
H4	SPI	0.014	Supported
H5	FER	0.164	Rejected
H6	POL	0.000	Supported

Source: Author's Proceed

Table 4.3 shows that three hypotheses are supported and three are rejected. Specifically, H3, H4, and H6 are supported, indicating that BI7DRR, SPI, and POL have significant effects on the JII. In contrast, H1, H2, and H5 are rejected because INF, EXR, and FER do not have statistically significant effects on the JII. These findings suggest that the JII is influenced by selected macroeconomic factors as well as political events during the study period.

4.4 Model Evaluation

To evaluate the overall explanatory power and statistical significance of the regression model, goodness-of-fit measures were examined. The results are presented in Table 4.4.

Tabel 4.4 Model Evaluation Result

Measure	Value
F-statistic	46.839
Prob(F-statistic)	0.000
Adjusted R-squared	0.887

Source: Author's Estimation

Table 4.4 shows that the regression model is statistically significant, as indicated by the F-statistic value of 46.839 and a Prob(F-statistic) value of 0.000. Furthermore, the adjusted R-squared value of 0.887 indicates that approximately 88.7 percent of the variation in the JII can be explained by the independent variables included in the model, while the remaining 11.3 percent is explained by other factors outside the model.

5. Discussion

5.1 The Effect of Inflation on the JII

The results indicate that inflation does not have a significant effect on the JII, although the relationship is negative. Theoretically, within the framework of the Efficient Market Hypothesis (EMH), information regarding inflation should be immediately incorporated by investors and reflected in stock prices. However, the insignificant effect of inflation in this study suggests that inflation-related information during the 2022–2024 period did not contain sufficiently strong information content to significantly influence market expectations. This may be attributed to the relatively controlled inflation rate during the study period, which did not disrupt macroeconomic stability or corporate cash flow projections. Consequently, investors did not regard inflation as a primary signal in making investment decisions.

From a Behavioral Finance perspective, this finding also suggests that investors tend to exhibit selective attention, whereby not all macroeconomic information is responded to proportionally. Instead, investors focus primarily on information that is perceived as relevant and capable of directly affecting market performance. In this context, investors may have paid greater attention to other factors, such as the BI7DRR, real-sector performance, or market sentiment, resulting in inflation changes failing to generate a significant market reaction.

These findings are consistent with those of Prehatin & Haryono (2024) as well as Santosa & Wisnu (2018), who reported that inflation does not have a significant effect on the JII. However, the results differ from those of Yaspa et al. (2024) and Pantas (2017) , who found a significant negative effect of inflation on the JII. These differences may be attributed to variations in economic conditions and inflation levels across the study periods. During periods characterized by higher and more volatile inflation, inflation tends to play a more dominant role in influencing JII performance. In contrast, during relatively stable periods such as 2022–2024, its effect appears to be comparatively weak.

5.2 The Effect of the Rupiah–US Dollar Exchange Rate on the JII

The results indicate that the exchange rate does not have a significant effect on the JII, although the relationship is negative. Theoretically, within the framework of the Efficient Market Hypothesis (EMH), exchange rate fluctuations should influence stock prices through the exchange rate pass-through mechanism, whereby rupiah depreciation may increase import costs and reduce corporate profitability, thereby exerting a negative impact on the stock market. However, the insignificant results of this study suggest that exchange rate movements during the 2022–2024 period did not contain sufficiently strong information content to significantly alter investor expectations. This may be attributed to the ability of companies, particularly those included in the JII, to adjust to exchange rate fluctuations through strategies such as hedging or diversifying their sources of revenue.

From a Behavioral Finance perspective, this finding also reflects that investors do not always respond directly to exchange rate fluctuations. Instead, they tend to focus on variables perceived as more relevant, such as the BI7DRR or real-sector performance. Consequently, the exchange rate did not serve as a primary signal in investment decision-making during the study period.

These indings are inconsistent with those of Santosa & Wisnu (2018) and Karim et al. (2020), who found that the exchange rate significantly affects the JII. They also differ from the findings of Primartha & Diana (2021) and Annisa et al. (2023), who reported a significant negative effect of the exchange rate on the JII. These differences suggest that the effect of the exchange rate on the JII is not consistent but depends on economic conditions, exchange rate volatility, and the characteristics of the firms included in the index. Therefore, during a relatively stable period such as 2022–2024, the effect of the exchange rate on the JII appears to be insignificant.

5.3 The Effect of BI7DRR on the JII

The results indicate that the BI7DRR has a positive and significant effect on the JII. This finding suggests that increases in the BI7DRR were positively perceived by the market, indicating that monetary policy tightening does not necessarily have a negative impact on stock market performance, as suggested by conventional financial theory. Within the framework of the Efficient Market Hypothesis, changes in the BI7DRR serve as important signals for investors in assessing economic conditions. Although higher interest rates are generally expected to reduce investment activity, the positive market response observed in this study may reflect investors' confidence in the credibility of monetary policy in maintaining macroeconomic stability and controlling inflation. Consequently, investors may interpret increases in the BI7DRR as signals of a stable economic environment, thereby enhancing expectations regarding stock market performance.

From the Behavioral Finance perspective, this finding may also be explained by changes in investor perceptions toward monetary policy. In this context, increases in the BI7DRR were not necessarily viewed as negative signals but rather as indicators of stronger economic fundamentals and effective inflation management. This reflects the presence of interpretation bias, whereby investors interpret monetary policy actions based on prevailing economic conditions and expectations regarding future economic stability.

The findings of this study differ from those of Teguh Prasetyo & Hariyani (2022), who reported a significant negative effect of interest rates on the JII, and from Sjam et al. (2023), who found no significant relationship. However, the results are consistent with the findings of Harahap (2019) and Karim et al. (2020), who reported a significant effect of monetary policy rates on the JII. These differences suggest that the impact of the BI7DRR on the JII is not constant but depends on economic conditions, market stability, and investor perceptions of monetary policy. During the 2022–2024 period, increases in the BI7DRR were likely perceived as part of a post-pandemic economic stabilization strategy, leading to a positive response from the Islamic stock market.

5.4 The Effect of the Sectoral Production Index on the JII

The results indicate that the sectoral production index has a positive and significant effect on the JII. This finding suggests that increased real-sector activity, as reflected by

production indices in the mining, manufacturing, and construction sectors, contributes to improved JII performance. Within the framework of the Efficient Market Hypothesis (EMH), information regarding increases in real-sector output is perceived as a positive signal reflecting economic growth and higher corporate profitability. As a result, investors respond by increasing their demand for stocks.

From a Behavioral Finance perspective, increased real-sector activity may also shape positive investor expectations regarding future economic prospects, thereby fostering market optimism and encouraging greater investment. The findings of this study are consistent with those of John E. Endres (2020), who found that production indices have a significant relationship with stock market movements. They are also supported by Rusydiana et al. (2023), who demonstrated that real-sector performance is closely linked to stock market performance.

Therefore, the use of the sectoral production index in this study provides more comprehensive empirical evidence in explaining the dynamics of the Islamic stock market, particularly within the context of Indonesia's economic structure, which is supported not only by the manufacturing sector but also by the mining and construction sectors.

5.5 The Effect of Foreign Exchange Reserves on the JII

The results indicate that foreign exchange reserves do not have a significant effect on the JII, although the relationship is positive. This finding suggests that increases in foreign exchange reserves are not able to directly influence movements in the JII. Within the framework of the Efficient Market Hypothesis (EMH), foreign exchange reserves should serve as a positive signal for investors because they reflect a country's economic stability and external resilience. However, the insignificant results of this study indicate that information regarding foreign exchange reserves does not possess sufficient direct relevance to corporate earnings expectations and, therefore, is not a primary consideration in investment decision-making.

From an economic perspective, foreign exchange reserves function more as an aggregate macroeconomic indicator and do not directly affect the operational performance of firms, particularly those included in the JII. Consequently, although foreign exchange reserves reflect economic stability, their influence on the stock market tends to be indirect and primarily represents overall macroeconomic conditions. As a result, they do not directly affect corporate earnings expectations or short-term investment decisions.

From a Behavioral Finance perspective, this finding suggests that investors tend to pay limited attention to macroeconomic information that does not have a direct impact on corporate performance. Consequently, foreign exchange reserves do not serve as a primary signal influencing investment decisions. The results of this study are inconsistent with the findings of Zakaria et al. (2018) and Rizki (2021), who reported that foreign exchange reserves have a significant positive effect on stock market performance. This difference may be attributed to variations in the research object (the Composite Stock Price Index versus the JII), as the JII is more heavily composed of real-sector-based stocks, as well as differences in the study period. Under relatively stable economic conditions, the effect of foreign exchange reserves on the JII appears to be insignificant.

5. 6 The Effect of Political Events on the JII

The results indicate that political events, proxied by the official certification of presidential election results, have a positive and significant effect on the JII. This finding suggests that political events are capable of influencing JII movements through changes in investor expectations and perceptions regarding future economic conditions. From a Behavioral Finance perspective, these results indicate that investors do not always act rationally but are influenced by sentiment, expectations, and subjective interpretations of political information, particularly under conditions of uncertainty.

More specifically, the official certification of presidential election results may be perceived as a signal of political stability and policy continuity, thereby fostering investor optimism and increasing demand for stocks. This explains the positive relationship identified in this study. From the perspective of the Efficient Market Hypothesis (EMH), the market reaction to political events demonstrates that non-economic information can also be rapidly incorporated into stock prices, even though it is not directly related to corporate fundamentals.

The findings of this study are consistent with those of Suhadi & Maharany (2025), who found that the official certification of presidential election results affects abnormal returns and stock trading volume within the JII. These findings are further supported by Anjas Sari & Nurazi (2025), who documented significant cumulative abnormal returns during the election period. In addition, (Rochimah & Yuliana, 2024) found that political events influence stock returns with varying degrees of impact across sectors. These findings reinforce the view that political events play an important role in shaping market expectations.

Therefore, the results of this study confirm that non-economic factors, particularly political events, can serve as major determinants of stock market movements and may even exert a more dominant influence than certain macroeconomic variables during specific periods.

6. Conclusion

Based on the research findings and discussion, it can be concluded that not all macroeconomic variables have a significant effect on the JII. Inflation, the exchange rate, and foreign exchange reserves were found to have no significant effect on the JII, indicating that during the 2022–2024 period, these variables did not contain sufficiently strong information to directly influence investor expectations. This condition suggests that under relatively stable economic circumstances, investors do not necessarily rely on all macroeconomic indicators as the primary basis for investment decision-making.

In contrast, the BI7DRR and the sectoral production index were found to have a positive and significant effect on the JII. These findings indicate that monetary policy and real-sector performance remain fundamental factors considered by investors when assessing stock market prospects. The increase in the BI7DRR during the study period was interpreted as a signal of economic stability, while the increase in the sectoral production index reflected growing economic activity that enhanced expectations of corporate profitability.

Furthermore, political events, proxied by the official certification of presidential election results, were also found to have a positive and significant effect on the JII. This finding suggests that non-economic factors play an important role in influencing stock market dynamics and, under certain conditions, may exert a more dominant influence

than macroeconomic variables. This result confirms that stock market movements are driven not only by fundamental factors but also by investor expectations, sentiment, and perceptions regarding political conditions.

Overall, the findings indicate that the effects of macroeconomic variables on the JII are not consistent and are influenced by economic conditions, market stability, and investor perceptions during a particular period. Therefore, an approach that integrates both fundamental and non-economic factors is essential for explaining the dynamics of the Islamic stock market in Indonesia.

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