

ABSTRACT

This study aims to analyze the effects of market sentiment, external shocks, and trading activity on the movement of Indonesia's Composite Stock Price Index (IHSG), in both the short run and long run, as well as the adjustment mechanism toward long-run equilibrium. The variables employed include the IHSG as the dependent variable, and trading volume (TRADEV), the U.S. Federal Funds Rate (FEDFUNDS), market sentiment (SENTIMENT), net foreign capital flow (FOREIGN), market breadth (BREADTH), share turnover ratio (TURNOVER), and an MSCI index dummy as independent variables. The study uses monthly data spanning January 2020 to December 2025, comprising 72 observations. The analysis employs the Autoregressive Distributed Lag–Error Correction Model (ARDL-ECM) with the Bounds Testing Approach, estimated using Stata MP 17.

The results reveal that in the short run, all independent variables are jointly significant in influencing the IHSG. On an individual basis, the Federal Funds Rate, market sentiment, and net foreign flow each exert a positive and significant effect, while market breadth is significant at the first lag. Trading volume and turnover are not statistically significant in the short run. In the long run, trading volume, the Federal Funds Rate, market sentiment, and net foreign flow all show positive and significant effects, with net foreign flow emerging as the most dominant determinant. Conversely, market breadth exerts a negative and significant long-run effect, while turnover and the MSCI dummy are not significant. The negative and significant error correction term (ECT) confirms the existence of a relatively rapid adjustment mechanism, correcting approximately 77% of disequilibrium within a single period. These findings affirm that IHSG dynamics are largely governed by external factors and investor behavior, particularly foreign capital flows and market sentiment.

Keywords: IHSG, ARDL-ECM, market sentiment, net foreign flow, Federal Funds Rate