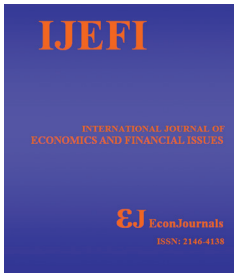

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Unveiling the Nexus of Consumer Price Index, Economic Policy Uncertainty, Geopolitical Risks, and Gold Prices on Indonesian Sustainable Stock Market Performance

Susilo Nur Aji Cokro Darsono[1], Ecky Imamul Muttaqin[1,2], Revy Andika Rahmadani[1], Nguyen Tran Thai Ha[3]*

[1]Department of Economics, Faculty of Economics and Business, Universitas Muhammadiyah Yogyakarta, Yogyakarta, Indonesia, [2]Department of Economics, Faculty of Economics and Business, Universitas Islam Internasional Indonesia, Depok, Indonesia, [3]Faculty of Economics, Ho Chi Minh City University of Economics and Finance, Ho Chi Minh City, Vietnam.
*Email: hantt@uef.edu.vn

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ABSTRACT

This study contributes to evaluate capital market performances categorized as sustainable stocks in Indonesia. The aim of the proposed model is to examine the impact of the Consumer Price Index, Economic Policy Uncertainty, Geopolitical Risk, and Global Gold Prices on the SRI-KEHATI Index. The study will cover the study period from January 2017 to December 2022. The ARDL approach is employed to see impacts in both long-term and short-term. The findings indicate that in the short run, the variables Consumer Price Index and Geopolitical Risk have a notable positive impact on the SRI-KEHATI Index, while World Gold Prices have a substantial negative impact. However, the variable Economic Policy Uncertainty does not have a significant effect on the SRI-KEHATI Index. In addition, over an extended period of time, the variables of Economic Policy Uncertainty and Geopolitical Risk exhibit a notable and constructive impact on the SRI-KEHATI Index. Compared to the long-term impact of the Consumer Price Index on Gold Prices is negligible.

Keywords: SRI-KEHATI Index, Consumer Price Index, Economic Policy, Geopolitical Risk, Gold Price
JEL Classification: G1, E2

1. INTRODUCTION

Issues pertaining to resource decline, ecological imbalance, and pollution, which have significant implications for human life and growth in society, are continuously emerging as worldwide priorities in the realms of politics and economics (Holmberg, 2023). In order to attain long-term economic and social progress, it is necessary to enhance environmental conservation. Sustainable development is not only crucial for economic growth and effective governance, but it has also become the main focus in research. ESG (Environmental, Social Responsibility, and Corporate Governance) are gaining widespread acceptance in every aspect of corporate expansion (Tseng et al., 2020; Gao et al., 2023). The term of ESG encompasses and strengthens the ideas of green economy, corporate social responsibility, and responsible investing. It also includes the important standards and criteria used worldwide to assess the extent of sustainable development (Deng and Cheng, 2019).

Sustainable investing is an investment strategy that considers ESG factors. This method is gaining popularity in global financial markets for selecting and managing investment portfolios (Avramov et al., 2022). Investors are currently demonstrating a keen interest in environmental matters. As a result, the SRI-KEHATI Index was created to put the green investment index into action. This index

measures the performance of 25 groups who have demonstrated exceptional success in establishing sustainability initiatives and displaying strong corporate governance, environmental awareness, and social responsibility. The SRI-KEHATI Index is an investment index in Indonesia that classifies sustainable stocks. It specifically targets environmentally friendly investments based on data from the Exchange and Sustainable Investment. Investors presently prioritize organizations that possess a robust reputation and have a proactive stance towards environmental and social matters. Hence, organizations that exhibit environmental consciousness are anticipated to have a rise in value, thereby impacting their entire company worth (Nurlisa et al., 2023).

Over the past 3 years, the value of SRI-KEHATI shares has experienced significant growth. The SRI-KEHATI Index is highly sought after by investors as compared to other stocks. The rise in these stocks indicates that sustainable investing is currently garnering the attention of investors to participate in this venture. The fluctuations in the SRI- KEHATI index share price are primarily driven by macroeconomic factors in Indonesia, including central bank interest rates, exchange rates, inflation, global stock market idexes, global energy prices, and security and political conditions (Utama and Puryandani, 2020).

Researchers carried out prior studies on stock prices. The study that was undertaken by Huy et al. (2021), Tomar and Kesharwani (2022), Gu et al. (2022), and Sheikh et al. (2020) demonstrates a notable impact of stock prices on the inflation variable (CPI). Hoque et al. (2019), Jeon (2021), Bagh et al. (2023), and Wang et al. (2022) conducted study on the impact of the Global Economic Policy Uncertainty Index variable. Their findings demonstrated that the GPR variable had a substantial and meaningful effect. Sohag et al. (2022), Truong et al. (2024) and Yang et al. (2021) conducted investigations on the impact of geopolitical risk on stock prices and oil prices. Their findings indicate that this factor does really affect stock prices. Commodity prices exert an influence on stock price variations, as evidenced by studies indicating that gold prices have a detrimental impact on stock prices (Darsono et al., 2024; Darsono et al., 2023; Ali et al., 2020).

This study intends to fill the gap in the existing literature on sustainable stock by investigating the factors that determine the sustainable stock index in Indonesia. This study identifies a gap in the literature about the macroeconomic variables that contribute to the advancement of sustainable stocks in Indonesia, a significant country in promoting such equities. Macroeconomic indicators encompass overall economic trends that contribute to the long-term success of stocks. In addition, Indonesia has experienced a growing acceptance of sustainable stocks, which may worsen the vulnerability and deficiencies associated with the rapid economic growth rates. Given the distinct differences between developing and frontier economies and developed industrial economies, Indonesia possesses unique traits that warrant more research and examination.

Finally, the rest of this study proceeds as follows. Section 2 reports a brief literature review and develops hypotheses for each model and variable. Section 3 displays the methodology and data. Section 4 provides the empirical findings and discussion. Section 5 provide discussion and argumentation. Section 6 is delivered for the conclusion and recommendation of the study.

2. LITERATURE REVIEW

The concept of the triple bottom line, also referred to as 3P (Profit, People & Planet), is organized around the principle of transparency and is built around three fundamental pillars for evaluating performance: Economic, Environmental, and Social (Tseng et al, 2019). The triple bottom line, also referred to as the "3P formula," encompasses three key elements: People (businesses that emphasize societal and environmental well-being), profit (companies that strive to accomplish their own financial gains), and planet (the company's commitment to preserving nature and the Earth). An exemplary firm is one that upholds three key principles: profitability, environmental sustainability, and the well-being of the local community (Michael et al., 2019; Gunawan et al., 2022).

2.1. CPI-Stock Prices

The study done by Tomar and Kesharwani (2022) and Huy et al. (2021) found that the Consumer Price Index had a detrimental impact on stock prices stimulated by several macroeconomics indicators. Gu et al. (2022) carried out investigations using linear regression and found evidence that the consumer price index has a detrimental impact on stock prices in China. Sheikh et al. (2020) investigated the reciprocal connection between macroeconomic fluctuations and the KSE-100 index by employing the ARDL model together with restricted testing techniques and error correction models. This study also investigated whether there was a shift in the correlation between macroeconomic instability and the KSE-100 index following the global recession in 2008. Macroeconomic changes are shown by fluctuations in interest rates, consumer price index, and money supply (M2) in which the consumer price index exerts a favorable impact in both the short and longer term.

H1: CPI contributes to a negative impact on sustainable stock

2.2. EPU-Stock Prices

In addition to economic policy, multiple studies have also demonstrated that Economic Policy Uncertainty (EPU) imposes a substantial adverse impact on stock prices. Hoque et al. (2019) investigated the effects of geopolitical risk, global economic policy uncertainty, and oil price shocks on Malaysian stock prices. The findings indicate that the variable of economic policy uncertainty has a detrimental impact on stock prices. Jeon (2021) done research to examine the influence of tourism uncertainty, including economic policy uncertainty (EPU) and travel crises arising from factors such as terrorism and pandemics on the stock market in Korea. Moreover, Bagh et al. (2023) did study to investigate the correlation between Economic Policy Uncertainty (EPU) and the stock price index (SPI). The results suggest that fluctuations in economic policy uncertainty exert a favorable impact on stock prices in China. The study conducted by Wang et al. (2022) also investigated the impact of economic policy uncertainty on the stock price of Electronic Arts. The findings reveal a positive and statistically significant effect.

H2: Economic policy uncertainty contributes to a negative impact on sustainable stock

2.3. GPR-Stock Prices

When it comes to the geopolitical risk due to its relationship with warfare, terrorist incidents, inter-country conflicts, and disruption of cooperative international ties, Sohag et al. (2022) conducted a study use the TVP-VAR approach to examine the impact of geopolitical risk on stock prices in the US, China, and Russia. The findings indicate an adverse effect on these stock prices. In a study conducted by Yang et al. (2021) investigating the correlation between geopolitical risk and stock returns on China's CSI 300 index using the GARCH-MIDAS approach. This study demonstrates that geopolitical risk exerts beneficial effects on the returns of stock prices within the respective country.

H3: Geopolitical risks contributes to a negative impact on sustainable stock

2.4. Commodity Prices-Stock Prices

In addition to macroeconomics, fluctuations in commodity prices, such as global gold prices, may additionally affect stock values. Various research has demonstrated a negative correlation between global gold prices and stock prices. Widjanarko et al. (2020) performed a study to examine the impact of gold prices and interest rates on the performance of stock prices. The study was carried out between January 2020 and July 2020 at manufacturing enterprises that are listed on the BEI (Indonesian Stock Exchange). Warp-PLS serves as the analysis tool. The research findings indicate that the price of gold exerts a substantial adverse impact on the performance of stock prices. In addition, Ali et al. (2020) conducted a study using daily and monthly data (PSX-100 index) from the third quarter of 2001 to the third quarter of 2018 to evaluate the correlation between stock market volatility, currency rates, and gold prices in Pakistan, a developing country. The findings of this study indicate that fluctuations in gold prices have had a negative effect on the returns of Pakistani stock prices.

In their study, Cui et al. (2022) analyze the impact of the dynamic interplay between oil prices, gold prices, oil price volatility, and gold price volatility on the Chinese stock market. This research employs the Autoregressive Distributed Lag (ARDL) bound test approach to estimate empirical data using daily data from 2009 to 2021. The ARDL approach is utilized to analyze the relationship between gold prices and share prices on the Chinese stock market. The data indicate that there is a favorable correlation between long-term gold prices and stock prices. In the immediate future, this variable exerts a substantial impact on the Chinese stock market.

H4: Gold price contributes to a negative impact on sustainable stock

3. DATA AND METHODOLOGIES

3.1. Data

This study employs secondary data and utilizes quantitative research methods. The data is collected as a time series, consisting of numerical values ordered in sequential order, spanning from 2017 to 2022. Subsequently, it has been subjected to analysis using econometric techniques. The research data was obtained from Investing.com (2024b) on a monthly basis, covering the period from January 2017 to December 2022. The Consumer Price Index data was acquired from the official website of Bank Indonesia and presented in a monthly format. The operational data for the Economic Policy Uncertainty Index is sourced from Uncertainty (2024), which provides monthly data from January 2017 to December 2022. The research data used in this study is sourced from Investing.com (2024a) and covers the period from January 2017 to December 2022, with a monthly frequency.

3.2. Model Specification

This study applies the Autoregressive Distributed Lag (ARDL) approach. According to Darsono et al. (2022), this regression model considers the influence of both long-term and short-term influences on the dependent variable, particularly regarding variations in the explanatory variables. This study investigates the interrelationships between JKSRI (SRI-KEHATI Index, which is recognized in the Indonesia Stock Exchange), CPI (Consumer Price Index), GEPU (Global Economic Policy Uncertainty Index), and the sustainable stock of GoldP (Global Gold Price) in Indonesia. The model can be divided into two independent models: a short-term model and a long-term model. Equation 1 represents the formulation of the long-run model in the ARDL technique.

$$JKSRI_t = \alpha + \sum_{l=1}^{p} \beta_0 CPI_{t-1} + \sum_{l=1}^{q} \beta_1 GEPU_{t-1} + \sum_{l=0}^{q} \beta_2 GoldP_{t-1} + \sum_{l=0}^{q} \beta_3 GPR_{t-1} + \varepsilon_{it} \ldots. \quad (1)$$

Meanwhile, the equation 2 describes the short run model of ARDL:

$$JKSRI_t = \alpha +_i \begin{pmatrix} JKSRI_{t-1} -_1 CPI_{t-1} -_2 GEPU_{t-1} -_3 \\ GoldP_{t-1} -_4 GPR_{t-1} \end{pmatrix} + \sum_{l=1}^{p} \beta_0 JKSRI_{t-1} + \sum_{l=1}^{q} \beta_1 CPI_{t-1} + \sum_{l=0}^{q} \beta_2 GoldP_{t-1} + \sum_{l=0}^{q} \beta_3 GPR_{t-1} + \varepsilon_{it} \ldots\ldots \quad (2)$$

The formula can be defined where *t* represent time, respectively, *JKSRI* represents the sustainable stock, *CPI* denotes the consumer price index, *GoldP* denotes the price level of gold, *GPR* denotes the global geo politics risk. In notation, the short-run coefficients of the lagged dependent variable and other control variables are λ, λ', λ'', respectively; the long-run coefficients in our model are θ_1 and θ_2; and Φ_i is the speed of adjustment and ε represent the error term.

4. EMPIRICAL FINDINGS

4.1. Descriptive Statistics

Table 1 below contains the results of these descriptive statistics. The SRI-KEHATI index as the dependent variable has an average of 365.70. The standard deviation is 37.09, while the minimum value is 284.87 and the maximum value is 440.14. Apart from that, the average CPI value is 114.75 percent with a standard deviation

Table 1: Descriptive statistics

Variable	Mean	Max.	Min.	SD	Number of observations
SRIKEHATI	365.7	440.14	284.87	37.09	72
CPI	114.75	139.1	95.61	14.68	72
EPU Global	237.37	426.18	124.12	64.15	72
GPR Global	113.68	318.95	58.42	49.32	72
Gold	1559.12	1985.9	1201.9	259.4	72

Source: Data processed

of 14.68. The minimum value is 95.61 and the maximum value is 139.1. The Global Economic Policy Uncertainty (EPU) variable has an average of 237.37 percent with a standard deviation of 64.15. The minimum value of EPU is 124.12 and the maximum is 426.18 percent. The average Geopolitical Risk Index (GPR) is 113.68 percent with a standard deviation of 49.32 percent. The minimum and maximum values for this variable are 58.42 and 318.95 percent respectively. The world gold price variable has an average of 1559.12 with a standard deviation of 259.4. The minimum value of this variable is 1201.8 and the maximum is 1985.9.

4.2. Unit Root Test

Unit Root Check (Unit Root Test) The first step before estimating a time series model is the stationarity test. This stationarity test is carried out at level and the first different because it uses time series data where the test must be carried out at the first difference level because in general the test is not stationary at that level.

Based on Table 2 above, it shows the ADF tests carried out at level and the first different on each variable. The conclusion of this test is that the Consumer Price Index (CPI) variable and the gold price are stationary at the first different level, while the variables SRI-KEHATI Share Price (JKSRI), Public Policy Uncertainty (EPU), and Geopolitical Risk (GPR) are stationary at level. After the data stationary test is carried out, analysis is carried out Auto Regressive Distributed Lag (ARDL) is suitable for use in this research because the research variables are stationary in different orders.

4.3. Optimum Lag Criteria

Aike Information Criteria (AIC) approach in research the optimum lag or best lag is used. Determining the optimal lag is based on the past value of the variable and the period or periods of the variable relative to other endogenous variables. In this model, the best lag is taken at the lowest value. The AIC results can be shown in Figure 1 as follows:

Based on Figure 1 above, the best model suitable for the ARDL model in this study is the one with the lowest AIC, namely 2, 3, 1, 2, 4. The lowest value was chosen because it has a smaller error compared to other ARDL methods. After carrying out the stationarity test, the next stage is the co-integration test. This co-integration test is carried out to determine the long-term relationship between variables. The co-integration test in this research uses the method Bound Testing Co-integration. The following are the results of the co-integration test using Bound Testing Co-integration.

Table 2: Unit root test

Variable	Level		First Different	
	t-stat	Prob.	t-stat	Prob.
JKSRI	−2.692	0.080	-	-
CPI	−2.067	0.258	−9.466	0.000
EPUGlobal	−2.907	0.049	-	-
GPRGlobal	−3.847	0.003	-	-
Gold	−1.102	0.710	−8.047	0.000

Source: Data processed

Figure 1: Optimum lag test

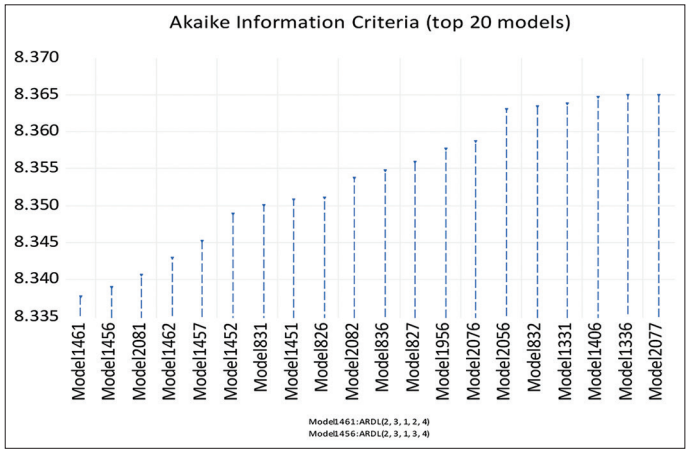
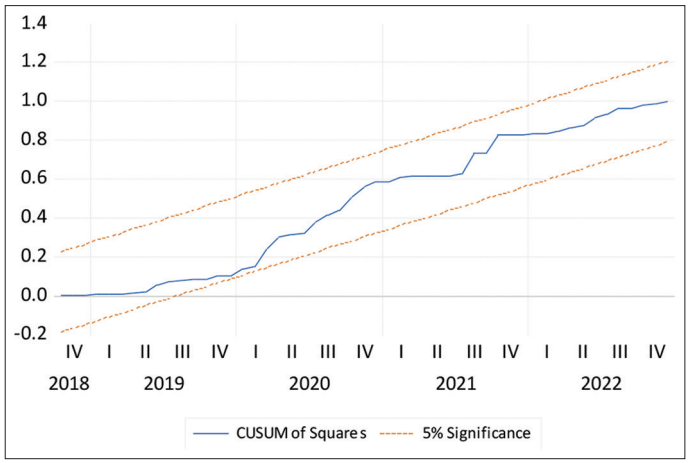


Figure 2: CUSUM test



4.4. Co-integration Test

The results of the co-integration test based on the Bound Test approach in Table 3 above show an F-statistic value of 4.204. This F-statistic value is greater than the highest value (upper bound) significance levels of 10% and 5%, which means that there is co-integration of the variables in the model being tested so that there is short-term to long-term balance in these variables. The short-term estimation test is a test used to estimate the effect of the dependent variable in the short term and find out its significance effect. The following are the estimation results described in Table 4 below:

4.5. ARDL Estimations

The results of the short-term estimation test explain that the value of CointEq (ECT)=−0.2902 with a probability value of 0.000, which means that short-term cointegration occurs in the model.

Table 3: Bound test

Test statistic	Value	K
F-statistic	4.204	4
Critical value bounds		
Significance	I (0) Bound	I (1) Bound
10%	2.2	3.09
5%	2.56	3.49
2.5%	2.88	3.87
1%	3.29	4.37

Source: Data processed

Table 4: Short term estimation result

ARDL (2,3,1,2,4) Based on values of AIC dependent variables: JKSRI		
Variable	Coefficient	Prob.
D (CPI)	0.4785* (−0.2728)	0.0921
D (CPI(-1))	0.7855*** (−0.2771)	0.0006
D (CPI(-2))	−0.753*** (−0.2686)	0.0071
D (GEPU)	−0.024 (−0.042)	0.5742
D (GPRG)	0.048 (−0.0647)	0.4618
D (GPRG(-1))	0.1354* (−0.0613)	0.0319
D (LogGoldP)	58.426 (−48.228)	0.2313
D (LogGoldP(-1))	−118.127* (49.192)	0.0200
D (LogGoldP(-2)	−119.268** (49.3896)	0.0194
D (LogGoldP(-3))	−73.31 (51.386)	0.1598
CointEq(-1)	−0.2902*** (0.0551)	0.000
R-squared=0.5427		
Adj. R-Squared=0.4528		

Description: with standard error,***P<0.01, **P<0.05, *P<0.1

Source: Data processed

The ECT or CointEq value can be declared valid if the coefficient is negative with a significance level of 5%. The ECT(−1) coefficient is −0.2902, which means that the speed of adjustment to the conditions of the SRI-KEHATI Index. The Consumer Price Index (CPI) variable has a positive and significant effect with a coefficient value of 0.4785 and a probability of 0.0921. At lag 1 and lag 2, the respective coefficients are 0.7851 and 0.7530, also showing that this variable has a positive effect on the SRI-KEHATI Index. If there was an increase of one percent in the previous month, it would increase the SRI-KEHATI Index by 0.785% at this time. If there is an increase in CPI in the previous 2 months, it will increase the SRI-KEHATI Index by 0.753%.

Moreover, the global Economic Policy Uncertainty (EPU) variable has no effect on the SRI-KEHATI Index in the short term. This can be seen from the coefficient value of −0.0240 and the probability value of 0.5742. The Global Geopolitical Risk (GPR) variable at lag 1 has a positive and significant effect with a coefficient of 0.1354 and a probability value of 0.0319 at a significance level of 10%. This shows that if the GPR Index experienced an increase of one percent in the previous month it would cause an increase in the current SRI-KEHATI Index of 0.135 percent. The gold variable at lags 1 and 2 has a negative and significant influence on the SRI-KEHATI Index. This can be seen from the respective coefficients of −118.127 and −119.26 with probability values of 0.020 and 0.019. This shows that if the world gold price experienced an increase of 1% in the previous month it would cause a decrease in the SRI-KEHATI Index of 118.12% at this time. Lag two shows that if the world gold price experienced an increase of 1% in the previous 2 months it would cause a decrease in the SRI-KEHATI Index of 119.26 percent at this time.

The long-term estimation test is a test to estimate the effect of the independent variable on the dependent variable in the long term, and find out how significant the effect is. The following estimation results are explained in Table 5 below.

$$JKSRI = 288{,}76+0{,}9646CPI+0{,}3099GEPU+0{,}6125GPRG-22{,}777LogGoldP+\varepsilon$$

It can be seen that the CPI variable has a positive but statistically insignificant impact on the SRI KEHATI Stock Price Index over the long term. These findings are evident from the coefficient of 0.9646 and the probability value of 0.1404. In the long term, the Global EPU variable has a notable and meaningful impact on the SRI-KEHATI Index. These findings are evident from the coefficient of 0.3099 and the probability of 0.0955, both of which were determined at a significance level of 10%. This demonstrates that a one percent increase in the Global Economic Policy Uncertainty (EPU) will result in a long-term increase of 0.0955 percent in the SRI-KEHATI Index. In the long term, the gold price variable has a negligible and adverse impact on the SRI-KEHATI Index. This is evident from the coefficient of −22.777 and the probability of 0.7363.

4.6. CUSUM Test

The final step in ARDL is the model stability test. This stability test is used to see the stability of the estimated coefficients in the model. This test can be seen from the CUSUM and CUSUM graphs of squares if the graph does not exit the significance line at the 5% level, it indicates that the model is in a stable condition. The results of the CUSUM and CUSUMQ tests can be seen in the image below.

Figures 2 and 3 show the results of the stability test of the ARDL model (2, 3, 1, 2, 4), which was carried out using the CUSUM and CUSUM tests of squares, shows that the CUSUM and CUSUM of squares graphs do not cross the 5% significance line so that the model is in a stable state

5. DISCUSSION

5.1. Consumer Price Index to the SRI-KEHATI Index

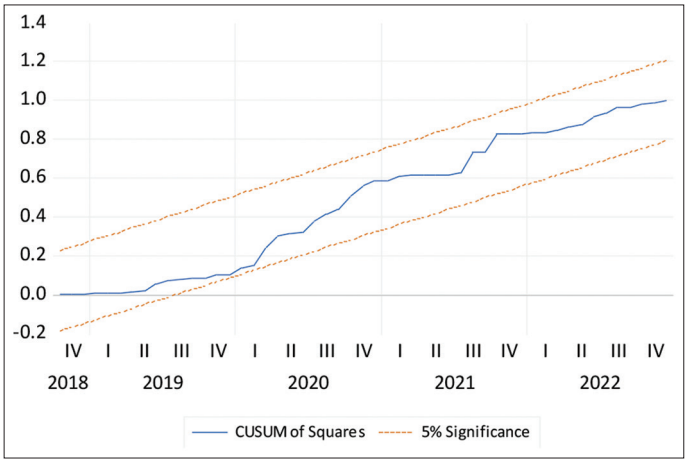
The research findings indicate that the consumer price index (CPI) variable has a notable positive impact on the SRI-KEHATI Index in the short term. This aligns with the studies undertaken

Table 5: Long term estimation result

ARDL (2,4,4,4,4) based on the value of AIC dependent variable: JKSRI		
Variable	**Coefficient**	**Prob.**
CPI	0.9646	0.1404
	(0.6440)	
GEPU	0.3099*	0.0955
	(0.1824)	
GPRG	0.6125***	0.0009
	(0.1736)	
(LogGoldP)	−22.777	0.7363
	(67.267)	
C	288.76	0.5811
	(520.03)	

Description: Standard error at ***P<0.01, **P<0.05, *P<0.1
Source: data processed

Figure 3: CUSUM of Squares



by Sheikh et al. (2020). A rising Consumer Price Index (CPI) is indicative of economic progress. Strong economic growth can lead to increased company earnings, which in turn can cause stock values to climb. Due to inflation, consumers with higher purchasing power tend to purchase a greater quantity of products and services, thereby driving up demand and boosting profitability for firms. Investors may underestimate the potential for future inflation. Consequently, they might be motivated to purchase stocks as a safeguard against inflation. Commodity firms, which are deemed resistant to inflation, may experience a more significant rise in their share values.

Nevertheless, our discovery contradicts the findings of Tomar and Kesharwani (2022) and Huy et al. (2021), who have demonstrated a favorable correlation between the Consumer Price Index and stock prices. Stock prices reflect the long-term worth of a company, whereas CPI gauges short-term inflation, typically on a monthly or yearly basis. The performance of a corporation is influenced by various factors, some of which are not directly correlated with short-term inflation, such as revenue growth, profitability, and future prospects. Consequently, these characteristics do not exert any influence on share values over an extended period of time. Government must accurately forecast future inflation rates in order to develop effective future economic policies. One can forecast the inflation rate by analyzing past data from the consumer price index.

5.2. Global Economic Policy Uncertainty Index to the SRI-KEHATI Index

The research findings indicate that the economic policy uncertainty variable has a large positive impact in the long term, but no significant impact in the near term on the SRI-KEHATI Index. These findings align with the research conducted by Wang et al. (2022), which demonstrates that economic policy uncertainty has a notable and favorable impact. This study further corroborates the findings of Bagh et al. (2023), which assert that economic policy uncertainty exerts a notable and favorable impact on stock prices. The findings of this study are in direct opposition to the research carried out by Jeon (2021) and Hoque et al. (2019).

When there is a high level of Economic Policy Uncertainty (EPU), it can lead to a decrease in the value of a country's currency. This, in turn, may make the shares of companies in that country more appealing to overseas investors, causing an increase in share prices. Central banks may choose to pursue a more flexible monetary policy, such as lowering interest rates, in response to increased global economic policy uncertainty. Consequently, investors have the ability to purchase a greater number of shares, leading to increased liquidity in the financial markets.

5.3. Global Geopolitical Risk Index (GPR) to the SRI-KEHATI Index

The results of this study indicate that the Geopolitical Risk Index variable has a notable and favorable impact on the SRI-KEHATI Index, both in the short and long run. This aligns with the studies undertaken by Yang et al. (2021). Amidst the presence of worldwide dangers, the act of investors speculating has the capability to impact the worth of shares. Investors have the option to buy shares in businesses that are expected to gain from a specific geopolitical situation. Furthermore, when confronted with global threats, government efforts to boost the economy can potentially elevate stock prices. Implementing monetary easing measures, such as reducing interest rates, and implementing expansionary fiscal policies, such as raising government expenditure, are two examples of strategies that can bolster investor confidence and stimulate stock market investments.

This research is in opposition to the investigations conducted by Sohag et al. (2022) and Hoque et al. (2019). They emphasize that geopolitical risk exerts a detrimental impact on stock values. Geopolitical uncertainty can offer investing opportunities for risk-tolerant individuals. Certain investors may perceive a decline in stock prices as a favorable occasion to acquire high-quality shares at a reduced price.

5.4. Global Gold Price to the SRI-KEHATI Index

The findings in this research show that world gold prices have a negative effect on the SRI-KEHATI Index in the short term, but in the long term the gold price does not have a significant influence. This supports research conducted by Widjanarko et al. (2020) with their findings showing that gold prices have a negative effect on stock prices. The results of this research are also in line with research by Ali et al. (2020) which states that the price of gold has a negative and significant effect on stock prices. Meanwhile, this research is in contrast to the research of Zeinedini et al. (2022)

where the results of these findings show that the price of gold has a positive effect on stock prices.

Gold has a smaller risk during times of global economic uncertainty and geopolitical instability, so investors prefer to invest in gold when gold prices rise compared to investing in the stock market. This is what can cause stock prices to fall. Apart from that, there are several factors that cause the price of gold to not have a long-term effect on stock prices, including differences in function where shares have the potential for long-term profits through return future profits, while gold is often viewed as an asset safe-haven or inflation hedge. The next factor is in terms of price drivers. Global demand, interest rates and inflation are the main factors that influence the price of gold. Meanwhile, factors such as investor sentiment, economic conditions and company performance influence stock prices.

6. CONCLUSION

In summary, the Consumer Price Index has a positive influence on the SRI-KEHATI Index. The CPI variable has negligible long-term influence. The Economic Policy Uncertainty Index has a positive and significant long-term impact on the SRI-KEHATI Index. In the immediate term, this variable has minimal influence. The SRI-KEHATI Index is influenced in a positive and significant manner by the Geopolitical Risk Index, both in the short term and the long term. In the short term, fluctuations in gold prices have a negative impact on the SRI-KEHATI Index. Regarding the SRI-KEHATI Index, gold prices have minimal long-term influence.

Investors are advised to select stocks that possess robust fundamentals, significant growth potential, and stable balance sheets. The government should additionally encourage long-term economic expansion and provide a conducive environment for investment. To mitigate economic policy unpredictability, investors should adopt a strategy of diversification across various asset classes and countries. Investors ought to conduct thorough research on foreign risks, gain a comprehensive understanding of geopolitical risks in each country and sector, and select companies with robust fundamentals and excellent development prospects, regardless of geopolitical worries. In order to mitigate the effects of gold price volatility on stock investments, the government may opt to increase interest rates as a means to incentivize saving and decrease the demand for gold. Foreign investment is attracted and the value of the rupiah is increased by high interest rates. Spreading assets over different asset classes such as shares, bonds, and real estate mitigates the potential for losses.

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