

Moderating Effect of Inflation Rate on the Relationships of Profitability and Asset Growth with Stock Returns

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ABSTRACT

Profitability is a benchmark for assessing a company's financial performance and management effectiveness in generating profit from sales, assets, or capital. This study analyzes the impact of profitability and asset growth on stock investment returns, with inflation as a moderating variable for the 20 most active stocks based on total trading value listed on the Indonesia Stock Exchange (IDX) during 2020–2024. Using a quantitative approach with multiple regression analysis, data were obtained from financial reports. For the direct effect, the results show that asset growth ($b = 0.404$, $p < 0.001$) has a significant effect on stock returns. However, the moderating effect shows that inflation ($b = -0.135$, $p = 0.011$) can moderate the relationship between asset growth and stock returns, while inflation ($b = -7.840E-6$, $p = 0.951$) does not moderate the relationship between ROA and stock returns. Inflation ($b = -0.03$, $p = 0.417$) does not moderate the relationship between ROE and stock returns. These findings highlight that asset growth is a more dominant factor than profitability in explaining stock returns in highly active stocks, while macroeconomic conditions play an important role in shaping investor responses to firm growth signals.

Keywords: Asset Growth; Capital Market; Inflation; Profitability; Stock Return

JEL Classification: E31; G11

INTRODUCTION

Capital market is an investment vehicle for capital owners with excess funds. The capital market not only serves as an investment vehicle but can also effectively drive a country's economic growth and enrich the community's wealth. Therefore, researchers see investment as playing a vital role for both society and the economy. Indonesia must continue to strive to develop its capital market, and the stock market is a core element of capital market. Capital market is closely linked to a country's economic growth, including increasing revenue through taxes and efficient allocation of funds. The capital market also serves as an indicator of economic conditions and serves a social purpose. Therefore, the capital market has a significant impact on an economy, both from the perspective of the government and society (Lubis et al., 2024). The following is the Jakarta Stock Exchange composite index for the period 2017 to 2025.

Figure 1. Jakarta Stock Exchange Composite Index



Source: [Investing.com](https://www.investing.com) (2025)

As shown in Figure 1, the trend shows a positive trend for 2017-2025, with the composite stock price index increasing year over year. Investing in securities such as stocks can provide benefits in the form of returns and increased investment value from price appreciation. The uncertainty of future returns and stock prices encourages investors to analyze a company's fundamentals more carefully.

Effective financial management by a company serves as a crucial tool for calculating corporate profits, optimizing costs, and ensuring optimal financial management. (Herianti et al., 2024). Investors need to understand the factors that influence stock market returns so they can choose which investments will provide the most optimal returns. Therefore, in recent years, the factors affecting returns have become a topic of interest and a focus of special interest for many academics. By studying these factors, investors can develop profitable investment strategies. Investors can comprehensively review a company's current situation to generate the highest possible returns. To achieve optimal returns, investors must thoroughly study the actual characteristics of the stock and the conditions that may influence it. In this situation, investors can analyze using a fundamental approach.

When selecting stocks, investors need to evaluate the company issuing them. Investors who buy shares in the market absolutely expect good performance from the selected company (Simbolon et al., 2024). Fundamental analysis can be used to assess a company. The analysis employed in this study is based on the company's financial statements, which can be analyzed using financial ratios to measure the company's financial performance. Stock prices are a reliable benchmark for a company's performance because they summarize its historical achievements and future potential.

Stock returns are the profits from selling shares above their purchase price. The higher the selling price compared to the purchase price, the higher the investor's profit. If investors desire stocks with high returns, they must take higher risks. Conversely, if investors desire stocks with low returns, they must take lower risks. Increases or decreases in stock returns can be determined by the company's financial performance, as recorded in its financial statements.

This study considers several factors that can influence stock returns. Profitability ratios and asset growth are analyzed to predict return of stock in this study. Inflation as a moderating variable will be further tested to address its impact on testing corporate financial performance and asset growth on stock returns. This is in line with the findings of several researchers who suggest that inflation is one aspect that influences stock return (Fahnayu et al., 2024; Martalena et al., 2023).

Research on the determinants of stock returns has expanded rapidly in recent times; however, a significant gap remains: few studies have integrated and applied these constructs within a single structural framework to project stock returns. This study offers novelty by examining the variables simultaneously accounting to stock return especially for the most active stocks in terms of total trading value in Indonesia.

LITERATURE REVIEW

Signaling Theory

Signaling theory explains the actions taken by management to convey a perception of the company's condition to external parties. In general, the theory frequently serves as the theoretical basis for this financial management research and assumes that a company's financial policies are reflected in its stock returns. For instance, debt can be used as a signal to distinguish between good and bad companies (Eldomiaty et al., 2024). The purpose of conveying information by management is to reduce information asymmetry for external parties. This information dissemination is crucial for investor decision-making. Information asymmetry refers to the difference in information held by management and external parties, especially regarding the company's performance, prospects, and condition, as reflected in its returns. Better financial performance will also have a positive signal for the company that is reflected in its stock returns. In this case, the company will provide signals in the form of information regarding the financial performance of the company to external parties.

According to signaling theory, high stock returns can be used as a positive signal in assessing the performance of a company, whereas low stock returns can act as a negative signal. Since an investor's primary motivation is to generate profit, such information signals the company's performance; consequently, if the returns are low, investors tend to avoid the company (Abbas et. al., 2022). A company's financial and non-financial information can assist investors in assessing the company's past, current, and future performance. When a company's performance is reflected in the information it provides, investors can simply decide where to route their investment (Atmariansi & Agustia, 2024).

Stock Return

Return is one of the elements that can attract investors to invest, as well as a reward for investors' courage in accepting the risk of their investment (Hermuningsih et al., 2024). When investors invest in stocks, the return can be reflected in the dividends distributed by the company, whereas capital gains represent the increase in the stock price above the initial purchase price, thereby generating profit for the investor. Without a profit,

investors will not make investments that yield no results. Stock returns are measured using total returns, which compare stock prices in the current period with those in the previous period. Portfolio theory posits that if the risk associated with a stock investment borne by an investor increases, the stock will yield a higher return. Thus, stock risk and returns have a positive relationship.

Profitability

Profitability refers to measuring the performance of a company in generating returns through the management of its existing resources (Ramadhan et al., 2026). Profitability is one way to assess the returns investors will receive from their investments. To maintain a company's survival, it must consistently achieve maximum profits. Investors generally expect a company with higher profitability to possess stronger operational capabilities and a greater capacity to create value for all investors and other shareholders (Aprilyo & Shiyammurti, 2026).

Return on Assets (ROA) serves as an indicator for measuring the ability of a company to generate profit through the management of its assets. This ratio is considered the proportion of annual net profit to the average total business assets during the financial year. In other words, it represents a company's ability to make profit by optimizing its total assets. The higher the ROA, the higher the stock return. Therefore, high ROA indicates that the company's shares are highly favored by investors.

Return on Equity (ROE) is the measurement of company performance in managing its capital to generate returns for investors. A higher ratio indicates superior company performance, as it signifies a greater rate of return for shareholders. Various factors have the potential and capability to increase Return on Equity, namely: a) an increase in sales value without a proportional rise in costs; b) the ability to minimize the cost of goods sold and operating expenses; c) increasing sales relative to asset value—whether by boosting sales or reducing investment in assets; and d) increasing debt usage relative to equity without exceeding limits that could jeopardize the company's financial health (Akbar, 2021). A higher ROE reflects a greater capacity to generate profit that can be interpreted as the future prospects of the company (Veny et al., 2025).

Asset Growth

A company described as growing is one that experiences year-over-year growth in the development of its assets and business. Such growth attracts investor interest in purchasing the company's shares (Agustina et al., 2024). Asset growth, the variable to be studied next, refers to changes in an entity's total assets. The size of assets can be viewed as a potential source of cash flow, efficiency, and future sales growth. Total assets can be used as a measure of a company's size, which can increase public trust. Increasing asset growth is essential for both external and internal stakeholders. This is because high growth indicates significant company development. Rapidly growing companies must rely more heavily on external capital. At the same time, rapidly growing companies often face greater uncertainty. However, a positive asset growth rate can increase investor confidence in the entity. A high asset growth rate also indicates that an entity can generate significant profits, thus encouraging investors to expect a high return on equity.

Inflation

Inflation can be defined as a tendency for prices to increase in general (Wahyuningsih et al., 2023). Inflation is the change in price for goods and services on a year-on-year basis. This, of course, will impact a company's production costs. High production costs will naturally drive up selling prices, thereby reducing sales, which will negatively impact a company's performance, reflected in a decline in its stock returns. When purchasing

power exceeds the quantity of goods and services in the market, inflation occurs in a country. This increase in purchasing power can be caused by an increase in people's income or changes in tastes. Inflation is an increase in the volume of currency, which causes price increases in the market.

Markets react differently to various factors especially if it happens to economic, political, and socio-cultural factors. Fluctuations in the share prices of publicly traded companies can be influenced by both positive and negative factors stemming from sources within and outside the existing economic system. A relatively stable and moderate inflation rate is indicative of healthy economic activity, reflecting rising demand, business expansion, and relatively robust market transactions (Rokhayati et al., 2026).

Hypotheses Development

Return on Assets and Stock Return

Research on ROA was investigated due to the decline in corporate profits (Hafidzi & Qomariah, 2022). From the 169 companies in Indonesia, 85 companies were used as samples. ROA has a significant effect on stock return. Hafidzi and Qomariah (2022) examined the systematic risks affecting stock returns in greater depth by analyzing changes in the relationships among investor sentiment, trading activity, market variables, and returns from stock investments, utilizing Structural Equation Modeling (SEM). CSR and ROA have a significant effect on stock returns. Widyakto et al. (2022) examined the effect of ROA, ROE, and Net Interest Margin (NIM) on stock prices in banking companies for 2017-2021 by using multiple linear regression techniques. ROA and NIM have a significant effect on the share price.

H1: ROA has a significant effect on stock return.

Return on Equity and Stock Return

Budi and Davianti (2022) examined whether profitability consistently has relationship with return of stock for 35 companies for the years 2017–2019. Net profit and ROE have a significant effect on stock return. Furthermore, Devita and Arviana (2023) studied the role of ROE in companies from 2016 to 2021. Partially, ROA and ROE have a significant effect on stock returns.

H2: ROE has a significant effect on stock return.

Asset Growth and Stock Return

Yulianto and Mayasari (2022) also conducted research on the role of asset growth. They analyzed the effect of sales growth and asset growth on stock returns from 2016 to 2019. The results showed a significant effect of asset growth and sales growth on return of stock. Nahdhiyah and Alliyah (2023) conducted research in the consumer goods industry. This study analyzed the effect of asset growth and the other variables on stock returns in 18 consumer goods industries from 2017 to 2021. Profitability has a significant effect on stock returns. Furthermore, asset growth, leverage, and liquidity have a significant effect on stock returns.

H3: Asset growth has a significant effect on stock return.

Return on Assets, Return on Equity, Asset Growth, Inflation, and Stock Return

Kusumaningtyas et al. (2021) conducted further research on the impact of inflation on the banking sector. Interest rates, inflation, and exchange rates negatively affected return of stock, while profitability positively affected stock returns. Satoto (2023) further examined the impact of inflation on return of stock. Inflation has a significant effect on

stock return. Furthermore, profitability has a significant effect on return of stock through inflation as intervening variable.

Husni and Wijaya (2023) analyzed the effect of solvency and profitability ratios on the stock prices of manufacturing firms from 2018 to 2020, using inflation as a moderating variable. The sample consists of 72 companies. Profitability ratios, solvency ratios, and inflation have a significant positive effect on stock prices. Additionally, ROE also significantly impacts prices of stock. Ultimately, the study concludes that inflation moderates the impact of profitability and solvency ratios on stock prices. Ikhsan et al. (2024) examined the effect of macroeconomic variables on stock prices. The exchange rate has a significant effect on stock prices. Furthermore, inflation can moderate the effect of the interest rate and exchange rate on stock prices in manufacturing companies.

H4: Inflation can moderate the effect between ROA and stock return.

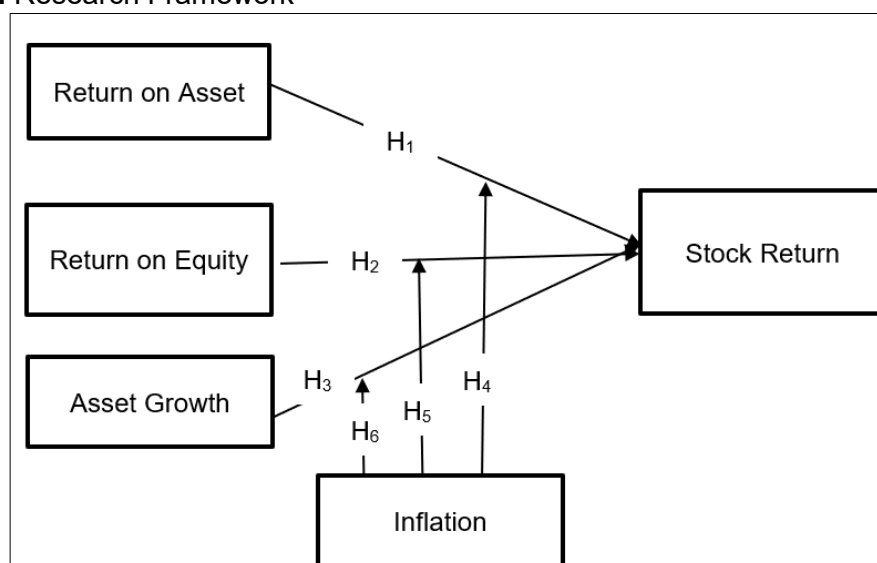
H5: Inflation can moderate the effect between ROE and stock return.

H6: Inflation can moderate the effect between asset growth and stock return.

Conceptual Framework

This study builds a conceptual framework to explain the effect between profitability ratios, asset growth, and stock return. Based on established signaling theory, the study defines ROA and ROE as financial profitability indicators and asset growth as independent variables, and stock return as the dependent variable. The conceptual framework of this study is shown in Figure 2.

Figure 2. Research Framework



RESEARCH METHOD

Research Design

This study employs a descriptive quantitative method for its analysis. Descriptive statistical analysis is used to describe or explain data regarding profitability, asset growth, inflation, and returns on stock investments. This research conducted an empirical study using secondary data from the companies' financial reports in Indonesia. The data covers the period January 2020-December 2024, with an annual frequency. This study focused on the 20 most active stocks based on total trading value listed on the IDX.

Population and Sampling Technique

The sampling method employed is purposive sampling, a technique in which the sample is selected based on considerations and criteria aligned with the research objectives. Several requirements apply to the determination of the sample, namely: (1) the company must be listed on the IDX during the 2020–2024 period, (2) the company must have issued financial statements or annual reports during the 2020–2024 period, (3) the 20 most active stocks based on total trading value listed on the IDX.

Table 1. Population and Sample Selection

Criteria	Number
Population: All companies listed on the IDX during 2020-2024	According to IDX listing
Companies have complete financial reports consecutively during 2020-2024	Included based on screening
20 most active stocks based on total trading value listed on the IDX	20 companies
Final sample companies	20 companies
Observation period	5 years
Total firm-year observations	100 observations

Table 1 outlines the sample selection process. The table details the population, the purposive sampling criteria, the number of sample companies selected, the duration of the observation period, and the total number of observations. The final sample comprised 20 companies, covering five years' time, and 100 firm-year observations.

Data Collection and Instrumentation

Secondary data is used in this study. Literature review and documentation serve as the data collection methods employed. The secondary data used in this study are the annual financial reports of the 20 most active stocks based on total trading value listed on the IDX.

Variable Measurement

Table 2. Variable Measurement

Variable	Measurement
Return on assets	Net income/total asset
Return on equity	Net income/total equity
Asset growth	$(\text{Asset}_t - \text{Asset}_{t-1}) / \text{Asset}_{t-1}$
Inflation	The change in price for goods and services on a year-on-year basis
Stock return	$(\text{Price}_t - \text{Price}_{t-1}) / \text{Price}_{t-1}$

The measurement methods for all variables in this study are summarized in **Table 2**. The dependent variable is stock return, the moderating variable is inflation, and the independent variables are divided into asset growth and two profitability ratios, such as ROA and ROE.

Data Analysis Technique

The data analysis technique has two main stages. First, a descriptive analysis was conducted to evaluate the frequency and distribution of observations related to profitability, asset growth, inflation, and stock return. This step provided an overview of how fundamental variables and market variable like inflation have impact on stock return. Second, multiple regression is used to conduct hypothesis testing. The regression equation is as follows:

$$SR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 AG_{it} + \beta_4 (ROA_{it} \times IR_t) + \beta_5 (ROE_{it} \times IR_t) + \beta_6 (AG_{it} \times IR_t) + e$$

Where:

SR_{it} = stock return

ROA_{it} = return on assets

ROE_{it} = return on equity

AG_{it} = asset growth

IR_t = inflation rate

e = error

RESULTS

Descriptive Statistics

[Table 3](#) provides descriptive statistical data of the research variables, consisting of ROA, ROE, asset growth, inflation, and stock return. The descriptive statistical data include the mean, median, minimum, maximum, and standard deviation.

Table 3. Descriptive Statistic

Statistic	ROA	ROE	AG	Inflation	Stock Return
Mean	1.0125	4.4449	161.2005	2.6480	55.9607
Median	3.0500	6.8912	8.0406	1.8700	0.0000
Std. Deviation	23.04174	33.68201	1344.10455	1.48371	211.47166
Minimum	-209.50	-297.72	-61.14	1.57	-76.15
Maximum	32.30	44.10	13441.19	5.51	1387.07

Based on [Table 3](#), descriptive statistics were obtained to explain information about the characteristics of all variables and present research data so that it is easier to understand the average, maximum, minimum, and standard deviation values. ROA has an average of 1.01 with a standard deviation of 23.04. The minimum value of -209.50, which is owned by GOTO, indicates that this company has a very low ROA. The maximum value of 32.30, which is owned by CUAN, indicates that this company has obtained a very high ROA. ROE has an average of 4.44 with a standard deviation of 33.68. The minimum value of -297.72, which is owned by GOTO, indicates that this company has a very low ROE. The maximum value of 44.10, which is owned by CUAN, indicates that this company has obtained a very high ROE.

Asset growth has an average of 161.20 with a standard deviation of 1344.10. The minimum value of -61.14, which is owned by GOTO, indicates that this company has very low asset growth. The maximum value of 13,441.10, which is owned by PANI, indicates that this company has obtained very high asset growth. Inflation has an average of 2.64 with a standard deviation of 1.48. The minimum value of 1.57 indicates that Indonesia has obtained very low inflation. The maximum value of 5.51 indicates that Indonesia has obtained a very high inflation. Stock return has an average of 55.96 with a standard deviation of 211.47. The minimum value of -76.15, which is owned by WIFI, indicates that there are banks that have very low stock returns. The maximum value of 1,387.07, which is owned by PANI, indicates that this company has obtained a very high stock return.

F-Test

The primary purpose of conducting or using the F-test in statistics is to determine whether two or more independent variables collectively (simultaneously) exert a significant influence on the dependent variable.

Table 4. F Test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	719.031	6	119.838	6.194	0.000 ^b
	Residual	1799.211	93	19.346		
	Total	2518.242	99			

The F test is used to determine the effect of ROA, ROE, and asset growth on stock return. Based on the results from Table 4, all of the independent variables jointly have a significant effect on stock return. This is proven by the significance value of 0.000, which is below the confidence level of 0.05.

Coefficient of Determination (R^2)

The primary purpose of R-squared (R^2) is to measure the extent to which the variation in the dependent variable can be explained by the independent variable(s) in the research model.

Table 5. R Square

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.534 ^a	0.286	0.239	4.39845	1.841

Based on Table 5, the adjusted R^2 of 0.239 indicates that 23.9% of the variation in stock return is explained by the predictors included in the model, while the remaining 76.1% is explained by other factors.

Hypothesis Testing

Table 6 presents the regression results of the t-test. The table represents the coefficient, standard error, t-statistic, and probability value for all of the independent variables.

Table 6. T-Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.075	0.585		17.219	0.000
	ROA	-0.002	0.024	-0.030	-0.069	0.945
	ROE	0.010	0.019	0.255	0.492	0.624
	AG	0.404	0.090	1.028	4.516	0.000
	ROAM	-7.84E-06	0.000	-0.017	-0.061	0.951
	ROEM	-0.003	0.004	-0.182	-0.815	0.417
	AGM	-0.135	0.052	-0.600	-2.596	0.011

Table 6 shows the hypothesis testing for the effect of ROA, ROE, and Asset Growth on stock return from 2020 – 2024. The t-test results indicate that asset growth has a significant effect on stock return (p-value less than 0.05). The positive results between asset growth and stock return mean that the higher the growth of a company's assets, the higher the rate of return on a share. ROA has no significant effect on return of stock (p-value more than 0.05). This study shows that there is a negative effect between ROA on stock return with a p-value of 0.945.

AGM is the interaction between asset growth on inflation and stock return. Inflation can moderate the effect between asset growth on stock return (p-value less than 0.05). ROAM is the interaction between ROA on inflation and stock return. Inflation can not moderate the relationship between ROA on stock return (p-value more than 0.05). ROEM

is the interaction between ROE on inflation and stock return. Inflation can not moderate the relationship between ROE on stock return (p-value more than 0.05).

Furthermore, inflation is a general increase in the market price over a period of time. This results in a reduced purchasing power of currency, so that with the same amount of money, a person can buy fewer goods and services than before. For investors, information on company performance and macroeconomic conditions is crucial for investment decision-making, as an efficient stock market reflects all relevant information in share prices.

DISCUSSION

The results of this study yield several important insights into financial literacy, especially regarding the relationship between profitability, asset growth, inflation, and stock returns among the 20 most actively traded stocks by total trading value. The descriptive statistics indicate that the financial performance of firms in the sample is highly heterogeneous. This is reflected in the wide dispersion of ROA, ROE, asset growth, and stock returns, as shown by relatively large standard deviations compared to their means. The presence of extreme minimum and maximum values, particularly in companies such as GOTO, CUAN, PANI, and WIFI, suggests significant variation in firm performance and market valuation during the observation period. Such variability may reflect differences in business models, growth stages, and market sentiment, which are common in highly active and emerging stock segments.

The F-test results confirm that profitability (ROA and ROE) and asset growth collectively have a significant influence on stock returns. This finding indicates that the model used in this study is statistically valid in explaining variations in stock returns. However, the relatively low explanatory power of the model, as indicated by the adjusted R-square value of 0.239, suggests that only 23.9% of stock return variations can be explained by the independent variables included in the model. The remaining variation is likely influenced by other factors not included in this study, such as market sentiment, interest rates, exchange rates, firm-specific risk, and other macroeconomic or behavioral variables.

Return on Assets and Stock Return (H1)

The results reveal a non-significant effect between ROA and stock return (p-value more than 0.05); therefore, H1 is not supported. This finding indicates that operational efficiency, as measured by ROA, is not a key determinant of stock returns in this sample. One possible explanation is that investors may place greater emphasis on growth prospects rather than short-term profitability performance. A similar result was obtained by Kurniawan (2021), which found no relationship between ROA and stock returns.

Return on Equity and Stock Return (H2)

The results reveal a non-significant effect between ROE and stock return (p-value more than 0.05); therefore, H2 is not supported. This suggests that equity-based profitability does not strongly influence investor decisions in this market context, possibly due to volatility and speculative trading behavior in highly active stocks. ROE has no significant effect on stock return (p-value more than 0.05). A similar result was obtained by Lubis & Alfiah (2021) and Rahmawati et al. (2023).

Asset Growth and Stock Return (H3)

The results reveal a significant effect between asset growth and stock return (p-value less than 0.05); therefore, H3 is supported. The t-test results provide more detailed insights into the individual effects of each independent variable. Asset growth is found to

have a positive and significant effect on stock returns. This implies that companies with higher asset expansion tend to generate higher returns for investors. This result is consistent with signaling theory, which suggests that asset growth can serve as a positive signal regarding a firm's future prospects and investment opportunities. Investors tend to interpret asset expansion as an indication of business confidence and expected future profitability, which ultimately increases stock demand and returns. A similar result was obtained by Yulianto and Mayasari (2022). Asset growth is the growth of assets used for a company's operational activities.

According to signaling theory, which emphasizes the importance of information for investment decisions, shows that the value of assets growth serves as a signal to external parties regarding investment decisions. Signaling theory has been used by academics in financial research in the long term. This theory states that management can send signals about a company through various aspects of financial disclosure, which can be perceived as signals by related parties. Asset growth can be used to measure the intrinsic value of a company. This study suggests that investors will consider macroeconomic factors like inflation in determining a company's stock returns, particularly for the most active companies based on total trading value.

Return on Assets, Return on Equity, Asset Growth, Inflation and Stock Return (H4–H6)

The results reveal a non-significant effect for the moderating role of inflation on ROA and stock return (p-value more than 0.05); therefore, H4 is not supported. Inflation does not significantly moderate the relationship between ROA and stock return. The moderating effect analysis shows that inflation plays an important role in strengthening the relationship between asset growth and stock returns. This indicates that macroeconomic conditions, particularly inflation, influence how investors interpret firm growth signals. When inflation changes, the impact of asset growth on stock returns becomes more pronounced, suggesting that investors adjust their expectations based on macroeconomic stability and purchasing power conditions. This finding supports the view that investment decisions are not only driven by firm-level fundamentals but also by broader economic environments.

Furthermore, the results reveal a non-significant effect for the moderating role of inflation on ROE and stock return (p-value more than 0.05); therefore, H5 is not supported. Inflation does not significantly moderate the relationship between ROE and stock return. This suggests that profitability measures are less sensitive to macroeconomic fluctuations in influencing stock returns. Investors may perceive profitability indicators as relatively stable internal performance metrics that are not strongly affected by inflation dynamics in the short term.

Furthermore, the results reveal a significant effect for the moderating role of inflation on asset growth and stock return (p-value less than 0.05); therefore, H6 is supported. Overall, these findings highlight that asset growth is a more dominant factor than profitability in explaining stock returns in this study. The results also emphasize the importance of macroeconomic conditions, particularly inflation, in shaping investor responses to firm growth signals. From a theoretical perspective, these findings reinforce signaling theory by demonstrating that asset growth serves as an important signal for investors, especially under varying inflation conditions. From a practical perspective, the study suggests that investors should consider both firm-level growth indicators and macroeconomic conditions when making investment decisions, particularly in highly active and volatile stock markets.

CONCLUSION

Based on the findings, asset growth has a significant effect on return of stock. Companies need to seriously consider asset growth, as it is a key indicator of financial health and potential long-term business sustainability. Asset growth demonstrates how effectively a company reinvests its earnings to produce goods and services and enhance business value. The company's strategy to increase asset growth can be carried out by managing cash flow, consistently investing in appropriate instruments, and diversifying risks.

In contrast, ROA and ROE have no significant effect on stock returns. These ratios are not key determinants of stock returns. Investors may place greater emphasis on growth prospects rather than profitability performance. Furthermore, inflation can moderate the effect between asset growth and return of stock. However, inflation does not significantly moderate the relationship between ROA and stock returns, nor between ROE and stock returns. Monetary authorities urgently need to maintain economic stability by establishing sound monetary policies. This is crucial for investors when making investment decisions.

LIMITATION

This study has several limitations. First, the research sample only focuses on the most active stock companies listed on the IDX. This study limits its observation period to 2020–2024. This study only selected three independent variables with 1 moderating variable and did not incorporate the other fundamental variables and macroeconomic variables of potential influencing factors, such as solvency ratios, liquidity ratios, gross domestic product and monetary policies. Follow-up research may supplement these variables to improve the comprehensiveness of stock return projection.

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DECLARATION OF CONFLICTING INTERESTS

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