

Financial Performance and Market Value of Shares in Financial Sector Companies Amid Economic Uncertainty in 2021–2025

Tia Khoerunnisa^{1*}, Nunung Nurhasanah¹, Liya Megawati¹

¹University of Singaperbangsa Karawang

Jl. HS.Ronggo Waluyo, Telukjambe Timur, Karawang, West Java, 41361, Indonesia

*Corresponding Email: 2310631020074@student.unsika.ac.id

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ABSTRACT

Economic uncertainty during the VUCA era has made stock price formation more complex, increasing the relevance of financial performance and macroeconomic conditions for investors. This study analyzes the effects of return on equity (ROE), earnings per share (EPS), and debt-to-equity ratio (DER) on stock prices, while assessing inflation and interest rates as moderators in Indonesian financial sector companies from 2021 to 2025. A quantitative method was applied through panel data regression and moderated regression analysis (MRA) using a random effects model (REM), with 500 observations. The findings reveal that ROE has a positive and significant effect ($b = 0.019$; $p < 0.001$), whereas EPS is not significant ($b = 0.000$; $p = 0.162$). DER also has a positive and significant effect ($b = 0.059$; $p = 0.019$). Inflation is insignificant in the main model ($b = 0.034$; $p = 0.057$), while interest rates show a significant negative effect ($b = -0.086$; $p = 0.001$). The MRA further shows that neither inflation nor interest rates significantly moderate the relationships between ROE, EPS, DER, and stock prices. Overall, the findings indicate that firm-level financial performance, particularly ROE and DER, remains relevant in explaining stock prices, while macroeconomic variables do not significantly alter these relationships.

Keywords: Debt-to-Equity Ratio; Earnings Per Share; Interest Rate; Return on Equity; Stock Price

JEL Classification: G12; G21; G32; E31; E43

INTRODUCTION

Information disclosed by a company provides investors with a basis for evaluating its financial condition and future prospects. Within Signaling Theory, financial statements serve as a means of communicating information to the market and reducing information asymmetry (Spence, 1973). Indicators such as return on equity (ROE) and earnings per share (EPS) can therefore provide signals regarding profitability, making stronger financial performance potentially more attractive to investors. Avinda et al. (2025) similarly found that investment decisions are influenced by both industry prospects and company-specific financial performance. The information contained in financial indicators also extends to the firm's financing structure. Debt-to-equity ratio (DER) reflects the extent to which a company relies on debt relative to equity and, consequently, provides information related to leverage and investment risk. The Modigliani–Miller Theory and Trade-off Theory associate capital structure with firm value and perceived risk (Modigliani & Miller, 1963). From another perspective, the Efficient Market Hypothesis suggests that information available to market participants, including ROE, EPS, and DER, is incorporated into stock prices (Fama, 1970). These theoretical arguments support the examination of financial fundamentals as factors associated with stock price movements.

Nevertheless, the relationship between corporate fundamentals and stock prices has become increasingly complex in the post-pandemic era, characterized by volatility, uncertainty, complexity, and ambiguity (VUCA) conditions. Global stock market volatility has increased significantly following the COVID-19 pandemic, particularly in emerging markets facing inflationary pressures and aggressive monetary policy tightening (Bhargava, 2025). In Indonesia, the post-pandemic economic recovery is unfolding amid various macroeconomic challenges that affect the stability of the financial sector and capital markets. These conditions have been exacerbated by global inflationary pressures, which prompted Bank Indonesia to raise the BI Rate from 3.50% in 2021 to 6.00% in 2023–2024 (Bank Indonesia, 2026). At the same time, Indonesia's inflation rate reached 5.95% in September 2022, the highest level since 2015, due to rising global energy and food prices (Central Agency of Statistics [BPS], 2026). Geopolitical tensions, such as the Russia-Ukraine conflict in 2022 and the Middle East conflict in 2023, also increased uncertainty in regional capital markets and triggered volatility in investor sentiment. Amid these conditions, the Composite Stock Price Index (IHSG) and LQ45 stocks exhibited high volatility throughout 2021–2023, although the financial sector was relatively more resilient than other sectors (Hapsari et al., 2025). On the other hand, not all macroeconomic factors show a strong correlation with stock market movements. The Indonesian capital market also has unique characteristics, so investors and economic observers need to identify which factors can truly signal changes in stock prices (Rahmawati & Maharani, 2023).

A notable phenomenon can be observed in Indonesia's financial sector listed on the Indonesia Stock Exchange (IDX). Although major banking institutions, including BBCA, BBRI, and BMRI, have reported steady improvements in EPS, their stock prices have not consistently moved in the same direction. Nugroho et al. (2024) reported that higher EPS is generally associated with stock price appreciation in banking companies. Nevertheless, improvements in EPS alone do not necessarily translate into rising share prices, as market performance is simultaneously shaped by external influences, including overall market conditions, investor sentiment, and macroeconomic volatility. In addition, the financial industry typically operates with relatively high leverage, making the DER an essential consideration in investors' valuation processes. This inconsistency between financial performance and market valuation raises an important question

regarding whether financial fundamentals continue to serve as the primary driver of stock prices under the economic uncertainty characterizing the VUCA era.

Existing studies investigating the relationship between corporate fundamentals and stock prices remain subject to several limitations. A large proportion of prior research has examined inflation and interest rates solely as direct explanatory variables, which has contributed to inconsistent empirical findings (Maulani & Riani, 2021). Comparatively few studies have explored their moderating effects, and those that have generally concentrated on specific market indices, such as the LQ45 (Alwyah & Arfatun, 2024). In addition, the observation periods employed in earlier studies were relatively short, with most analyses focusing on the pre-pandemic period or the initial stage of the COVID-19 outbreak. For example, Sharma et al. (2023) analyzed data from 2015 to 2019, preventing their study from capturing post-pandemic market developments. Another limitation concerns sample representation, as previous research frequently relied on relatively small samples that did not adequately reflect the characteristics of the financial sector (Ristiya et al., 2024). Consequently, further investigation is needed to reassess the association between corporate fundamentals and stock prices by incorporating broader macroeconomic conditions within the financial sector. This direction is consistent with the recommendation of Rahmawati and Maharani (2023), who suggested integrating macroeconomic variables with firm-level factors to provide a more comprehensive explanation of stock market dynamics.

Unlike previous studies, this research extends the existing literature by examining the moderating roles of inflation and interest rates in the relationship between ROE, EPS, DER, and stock prices within Indonesia's financial sector over the 2021–2025 period. This observation window captures the transition from economic contraction to recovery and post-pandemic normalization during the VUCA era, a period marked by heightened global uncertainty, persistent inflationary pressures, supply chain disruptions, and shifts in monetary policy across many economies. These circumstances have created distinctive challenges for financial institutions, which must respond to changing credit risk, market risk, and evolving customer behavior following the pandemic (Tang, 2024). Methodologically, this study employs a substantially larger sample than most previous studies, thereby improving statistical robustness and enhancing the representativeness of the empirical findings (Sharma et al., 2023). The findings contribute to the literature by providing updated empirical evidence on the applicability of Signaling Theory and the Efficient Market Hypothesis (EMH) under uncertain market conditions. In practice, the results offer investors insights into the financial indicators that remain relevant when evaluating investment opportunities during periods of economic instability. The findings may also assist corporate managers in strengthening financial performance to enhance firm value, while providing policymakers, including Bank Indonesia and the Financial Services Authority (OJK), with empirical evidence that may support policies aimed at preserving capital market stability amid continuing global uncertainty.

LITERATURE REVIEW

Theoretical Foundations

This study draws on several complementary theories to explain how financial performance shapes stock prices in the financial sector. The principal theoretical foundation is Signaling Theory by Spence (1973), which argues that firms reduce information asymmetry by disclosing financial information to the market. Through these disclosures, investors are able to assess a company's financial quality and differentiate it from competing firms. Profitability indicators, particularly ROE and EPS, are widely viewed as positive signals of operating performance and future growth potential. Consequently, stronger financial performance tends to increase investor confidence,

stimulate demand for shares, and support higher stock valuations. From this perspective, Signaling Theory explains the expected positive relationship between ROE, EPS, and stock prices.

For financial sector firms, a high DER does not necessarily carry the same implication as it does in other industries because debt is closely connected to their core business activities. The ratio nevertheless reflects the extent of leverage and the financial risk borne by the firm. Trade-off Theory and the capital structure framework of [Modigliani and Miller \(1963\)](#) explain this position by considering the benefits of debt financing alongside the costs that may emerge from excessive leverage. While debt can provide tax advantages, increasing leverage may also raise financial costs and affect market perceptions of risk. Consequently, the relationship between DER and stock prices may differ across firms, depending on their respective leverage positions, and may result in positive, negative, or insignificant effects.

Another theoretical perspective underlying this study is the EMH introduced by [Fama \(1970\)](#), which argues that stock prices rapidly incorporate all publicly available information, including firms' financial fundamentals. Under efficient market conditions, newly released financial information is expected to be reflected promptly in security prices as investors adjust their expectations. Accordingly, disclosures of financial indicators such as ROE, EPS, and DER are anticipated to influence stock prices shortly after publication. Nevertheless, [Fama \(1970\)](#) acknowledged that market efficiency may decline during periods of heightened uncertainty. This limitation is particularly relevant in the post-pandemic VUCA environment, where elevated market volatility, inflationary pressures, and frequent interest rate adjustments may delay or distort the market's response to new information. To complement this perspective, the study also adopts the Arbitrage Pricing Theory (APT) proposed by [Ross \(1976\)](#), which explains that asset prices are determined by exposure to multiple systematic risk factors originating from the broader economic environment. Among these factors, inflation and interest rates are considered key macroeconomic variables affecting expected returns. Therefore, while the EMH emphasizes the rapid incorporation of available information into stock prices, APT highlights that macroeconomic conditions also shape market valuation, indicating that stock prices are influenced by both firm-specific fundamentals and systematic economic forces.

Stock Price

Stock prices are widely recognized as a market-based indicator of corporate value because they summarize investors' collective assessments of a firm's performance and future prospects. Since prices in the secondary market are determined through the interaction of supply and demand, they continuously adjust to changes in market expectations. Accordingly, this study employs the annual closing prices of financial sector companies listed on the IDX during the 2021–2025 period as the dependent variable. The use of absolute annual closing prices is theoretically supported by [Fama's \(1970\)](#) EMH, which argues that publicly available information is rapidly incorporated into security prices. From this perspective, the annual closing price provides a direct representation of how investors evaluate financial disclosures. Compared with stock returns, which primarily measure changes in investment gains, and Tobin's Q, which is partly determined by accounting-based asset values, closing prices more directly capture the market's overall valuation of a firm. This rationale is further reinforced by [Spence's \(1973\)](#) Signaling Theory, which interprets market valuation as the aggregate response of investors to information released by companies. Therefore, annual closing prices provide an appropriate proxy for assessing the consistency of long-term corporate valuation. Although short-term prices may temporarily diverge from intrinsic value because of behavioral biases, market shocks, and economic uncertainty, improvements

in market regulation and trading efficiency are expected to facilitate convergence toward fundamental value over time.

Stock prices are determined by the interaction between firm-specific fundamentals and the surrounding economic environment. From the corporate perspective, investors commonly assess financial performance through indicators such as ROE, EPS, DER, dividend policy, asset growth, and liquidity. Signaling Theory suggests that these indicators reduce information asymmetry by providing investors with information about a firm's financial condition and future prospects. Consistent with this view, [Irsyadillah et al. \(2024\)](#) found that EPS positively influences stock prices because it reflects a company's ability to generate earnings for shareholders. Beyond internal financial conditions, stock valuation is also affected by macroeconomic factors, including inflation, interest rates, exchange rates, and economic growth. Inflation, for instance, may weaken purchasing power and increase operating costs, thereby placing downward pressure on stock prices. Investor sentiment, trading activity, sectoral performance, and regulatory changes also contribute to market valuation. In the post-pandemic VUCA environment, these firm-level and external factors have become increasingly interconnected, making stock price movements more sensitive to both corporate performance and broader economic uncertainty.

Hypotheses Development

The Effect of Financial Performance on Stock Price

Investors frequently rely on corporate financial performance when assessing the attractiveness of investment opportunities, making profitability and capital structure key factors in stock valuation. ROE, in particular, measures a firm's ability to generate net income from shareholders' equity and is widely used as an indicator of managerial efficiency ([Permana et al., 2025](#)). Companies reporting higher ROE are generally expected to attract stronger investor confidence because they demonstrate more effective utilization of shareholders' funds. Nevertheless, previous empirical studies have produced mixed results. [Sharma et al. \(2023\)](#) found that ROE was positively associated with stock prices in the Indian banking industry during 2015–2019, indicating that investors viewed profitability as an important signal of expected returns. Conversely, [Alwyah and Arfatun \(2024\)](#) observed a significant negative relationship among firms included in the LQ45 index, while [Maulani and Riani \(2021\)](#) reported no significant effect for financial sector companies in Indonesia. These inconsistencies imply that the relationship between ROE and stock prices may depend on differences in market conditions and industry characteristics.

EPS is widely used to assess a company's earning capacity because it indicates the amount of net income available for each outstanding common share ([Permana et al., 2025](#)). As a profitability measure, EPS helps investors estimate the potential returns that a company can generate for its shareholders. [Hasanudin \(2023\)](#) also notes that EPS serves as a fundamental component of the price-to-earnings (P/E) ratio, with higher EPS generally interpreted as a positive signal of future business performance. Previous empirical studies have generally reported a favorable relationship between EPS and stock prices. [Maulani and Riani \(2021\)](#) found that companies with higher EPS tended to record higher stock prices in Indonesia's financial sector, while [Sharma et al. \(2023\)](#) likewise documented a significant contribution of EPS to stock performance in the Indian banking industry. However, the empirical evidence is not entirely consistent. [Juniarmita and Ifwana \(2025\)](#) reported that variations in EPS did not significantly affect the stock price of PT Mandala Multifinance Tbk, suggesting that the market response to earnings information may depend on firm-specific characteristics and prevailing investor sentiment.

DER measures the extent to which a company's operations are financed through debt relative to shareholders' equity, making it a widely used indicator of financial leverage (Permana et al., 2025). In general, firms with higher leverage are perceived as carrying greater financial risk, causing investors to view excessive debt levels less favorably. This interpretation, however, is not always applicable to financial institutions, where leverage represents a fundamental element of the business model. Rizkia (2023) argues that a high DER does not necessarily weaken investor confidence as long as companies maintain effective debt management and control financial risk. Previous empirical studies have produced mixed findings. Ristiya et al. (2024) documented a positive and significant relationship between DER and stock prices, whereas Maulani and Riani (2021) found no significant association among financial sector firms in Indonesia. These differences indicate that the market's assessment of leverage is likely shaped by firm characteristics, industry-specific conditions, and investors' perceptions of financial risk.

H1: ROE is hypothesized to have a positive relationship with stock prices.

H2: EPS is hypothesized to have a positive relationship with stock prices.

H3: DER is hypothesized to significantly affect stock prices.

The Moderating Role of Inflation

Changes in the Consumer Price Index (CPI) provide an indication of inflationary conditions, with the Central Agency of Statistics (*Badan Pusat Statistik/BPS*) using the index to capture movements in the prices of goods and services consumed by the public (Rangkuty et al., 2022). Sustained and broad-based price increases therefore reflect an important dimension of a country's economic stability. For capital market participants, inflation represents a systematic condition that can influence stock prices through its effects on purchasing power, corporate operating costs, and investor expectations. An increase in inflation may raise operating expenses and place pressure on corporate profitability, which in turn can reduce market valuations.

Inflation may alter the extent to which corporate financial performance is translated into market valuation by influencing both business operations and investor behavior. Although a high ROE continues to signal strong profitability, rising inflation can reduce its positive effect by increasing operating costs and weakening consumers' purchasing power, thereby limiting the economic benefits generated by firms. A similar mechanism applies to EPS. While higher EPS generally indicates stronger earnings performance and enhances investor confidence, inflationary conditions often increase uncertainty, causing investors to respond more cautiously to corporate earnings information. Consistent with this view, Abid (2025) reported that inflation negatively affects stock market returns by shaping investor behavior and overall economic conditions. Inflation also has important implications for corporate leverage. As inflation accelerates, financing costs and debt-related pressures tend to increase, particularly for firms with substantial leverage. Alwyah and Arfatun (2024) provide evidence that the effect of DER on stock prices becomes stronger under higher inflation, as debt-related risk receives greater attention from investors during periods of economic instability. This finding indicates that inflation may alter how financial information is reflected in stock prices, making its moderating role in the relationship between corporate financial performance and stock prices relevant for further examination in Indonesia's financial sector.

H4: Under inflationary conditions, the positive effect of ROE on stock prices tends to weaken.

H5: Under inflationary conditions, the positive effect of EPS on stock prices tends to weaken.

H6: Under inflationary conditions, the effect of the DER on stock prices is hypothesized to be strengthened.

The Moderating Role of Interest Rates

Interest rates represent the benchmark policy instrument established by Bank Indonesia and play an important role in both the financial system and the capital market. According to [Amanda et al. \(2023\)](#), they represent the cost of borrowing funds over a specified period and therefore influence investors' portfolio allocation decisions. Higher interest rates generally encourage investors to shift their capital from equities to lower-risk financial instruments, such as time deposits. In this study, interest rates are treated as a moderating variable because they may alter the relationship between corporate financial performance and stock prices. This perspective is supported by the APT, which argues that systematic macroeconomic variables, including interest rates, contribute to asset valuation ([Ross, 1976](#)). Rising borrowing costs may weaken corporate profitability, reducing the informational value of financial indicators such as ROE and EPS. From the perspective of Signaling Theory, strong profitability continues to provide a favorable signal regarding firm quality; however, its influence on market valuation may diminish when higher interest rates increase the attractiveness of alternative investments. Consistent with this argument, [Nuraini et al. \(2025\)](#) found that interest rates weakened the effect of ROE on stock prices in the mining sector. Previous empirical evidence also remains mixed, as [Putri et al. \(2022\)](#) reported a significant positive relationship, whereas [Maulani and Riani \(2021\)](#) found no significant effect in Indonesia's financial sector.

Interest rates may also influence how investors respond to earnings information. From the perspective of Signaling Theory, higher EPS reflects stronger profitability and conveys favorable information regarding a firm's future prospects. However, when interest rates increase, investors are more likely to allocate funds to fixed-income instruments offering relatively attractive returns, thereby reducing the market's responsiveness to earnings signals. Although [Maulani & Riani \(2021\)](#) and [Putri et al. \(2022\)](#) both reported a significant positive relationship between EPS and stock prices, the magnitude of this relationship may differ across monetary policy conditions. The moderating role of interest rates is likewise relevant to corporate leverage. According to [Modigliani and Miller \(1963\)](#), debt financing provides tax advantages while simultaneously increasing financial risk. Higher borrowing costs resulting from rising interest rates may therefore intensify investors' concerns regarding firms with substantial leverage, strengthening the adverse effect of the DER on market valuation. Nevertheless, because leverage is an inherent feature of financial institutions, previous empirical findings remain inconsistent. [Alwyah & Arfatun \(2024\)](#) and [Maulani & Riani \(2021\)](#) found that the influence of DER on stock prices was not consistently significant.

H7: Interest rates are hypothesized to weaken the positive effect of ROE on stock prices.

H8: Interest rates are hypothesized to weaken the positive effect of EPS on stock prices.

H9: Interest rates are hypothesized to strengthen the relationship between the DER and stock prices.

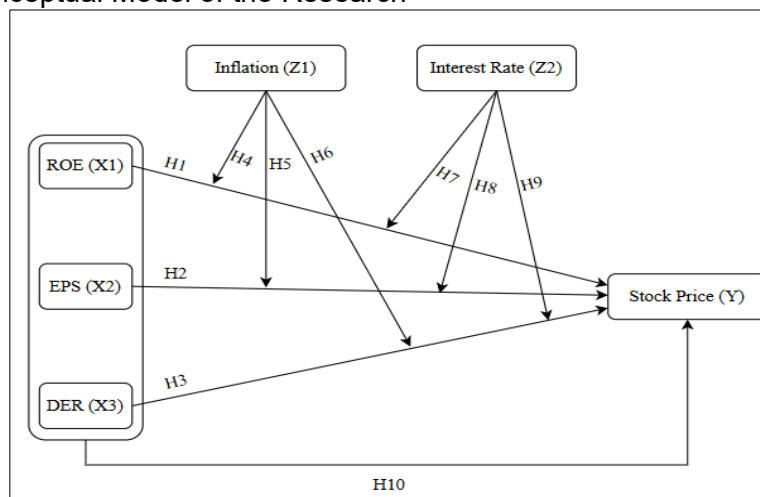
The Simultaneous Effect of Financial Performance, Inflation, and Interest Rates on Stock Price

Theoretical perspectives suggest that stock prices are determined by the combined influence of firm-specific financial performance and the broader macroeconomic environment. Corporate fundamentals, represented by indicators such as ROE, EPS, and DER, provide investors with essential information for assessing corporate performance and estimating firm value. At the same time, macroeconomic conditions, particularly inflation and interest rates, shape market expectations by affecting economic stability, perceived investment risk, and capital market behavior. Based on this conceptual framework, this study evaluates the joint effect of financial performance

indicators and macroeconomic moderating variables on stock prices through simultaneous hypothesis testing.

H10: Stock prices are jointly influenced by ROE, EPS, DER, inflation, and interest rates.

Figure 1. Conceptual Model of the Research



The relationships proposed in the study are summarized in Figure 1. Direct relationships between ROE, EPS, DER, and stock prices are represented by H1–H3. The next hypothesis groups, H4–H6 and H7–H9, respectively, test inflation and interest rates as moderators. H10 then addresses the joint relationship of the financial and macroeconomic variables with stock prices among financial sector companies listed on the IDX.

RESEARCH METHOD

Research Design and Sample

A total of 500 firm-year observations from 100 companies were retained for the empirical analysis. These observations were obtained after removing incomplete records from the preliminary dataset of 522 observations covering 110 firms. The sample was restricted to financial sector companies that remained listed on the IDX throughout 2021–2025 and provided complete annual financial statements and information for every research variable. This purposive selection was applied within an explanatory quantitative research design, which was intended to examine financial performance and capital structure in relation to stock prices and the moderating role of macroeconomic conditions (Sugiyono, 2025).

Data Sources and Variables

The empirical analysis was based on secondary data obtained from annual financial reports published by the IDX, Yahoo Finance, and IDN Financials, together with inflation and interest rate data collected from BPS and Bank Indonesia. Stock price, represented by the annual closing price and transformed into its natural logarithm (Ln), was specified as the dependent variable. ROE, EPS, and DER were treated as explanatory variables, whereas inflation and interest rates served as moderating variables.

Data Analysis

All statistical analyses were conducted using EViews 14. The appropriate panel-data specification was determined through the Chow, Hausman, and Lagrange Multiplier tests, followed by diagnostic assessments for multicollinearity (VIF), heteroscedasticity, cross-sectional dependence, and model specification using the Wald test. Hypotheses

were evaluated using the t-test, F-test, and adjusted coefficient of determination (Adjusted R²). The moderating effects were estimated using Moderated Regression Analysis (MRA) with mean-centered interaction terms to reduce multicollinearity. To evaluate the robustness of the estimates, White cross-section robust standard errors were applied, whereas potential endogeneity was addressed using the Two-Stage Least Squares (TSLS) estimator.

Regression Model

The empirical model is specified as follows:

$$Ln_Y = \alpha + \beta_1 X1_{i,t} + \beta_2 X2_{i,t} + \beta_3 X3_{i,t} + \beta_4 Z1_{i,t} + \beta_5 Z2_{i,t} + \varepsilon_{i,t} \dots \quad (1)$$

$$Ln_Y = \alpha + \beta_1 X1_{i,t} + \beta_2 X2_{i,t} + \beta_3 X3_{i,t} + \beta_4 Z1_{i,t} + \beta_5 Z2_{i,t} + (\beta_6 X1_{i,t} * Z1_{i,t}) + (\beta_7 X2_{i,t} * Z1_{i,t}) + (\beta_8 X3_{i,t} * Z1_{i,t}) + (\beta_9 X1_{i,t} * Z2_{i,t}) + (\beta_{10} X2_{i,t} * Z2_{i,t}) + (\beta_{11} X3_{i,t} * Z2_{i,t}) + \varepsilon_{i,t} \dots \quad (2)$$

Notes:

α	: Constant	Z1	: Inflation
β	: Regression Coefficient	Z2	: Interest Rate
i	: Company Sample	X1*Z1	: Interaction Between ROE and Inflation
t	: Company Year	X2*Z1	: Interaction Between EPS and Inflation
Ln_Y	: Natural Log of Stock Price	X3*Z1	: Interaction Between the DER Variable and Inflation
X1	: ROE	X1*Z2	: Interaction Between ROE and Interest Rates
X2	: EPS	X2*Z2	: Interaction Between the EPS Variable and the Interest Rate
X3	: DER	X3*Z2	: Interaction Between the DER Variable and Interest Rates

RESULTS

After applying the specified sample selection criteria, 500 firm-year observations were retained for analysis over the 2021–2025 period. The empirical analysis was carried out using panel data regression and MRA with EViews 14.

Table 1. Descriptive Statistics for the Study Variables

Variables	N	Mean	Max	Min	Std. Dev
ROE (%)	500	2.301	38.83	-64.73	8.528
EPS (IDR)	500	90.023	1,802.270	-968.44	226.055
DER	500	2.874	15.99	-1.09	2.799
Inflation (%)	500	2.896	5.51	1.57	1.396
Interest Rate (%)	500	5.150	6.00	3.50	0.944
Stock Price (IDR)	500	1,420.910	16,000	1.61	2,298.791

Note: Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

As presented in Table 1, the sample exhibits an average ROE of 2.301% (SD = 8.528), suggesting considerable variation in corporate profitability. EPS records a mean value of IDR 90.023 with a standard deviation of 226.055, indicating substantial differences in EPS across firms. The average DER is 2.874 (SD = 2.799), reflecting heterogeneity in firms' capital structures. For the macroeconomic variables, inflation averages 2.896% (SD = 1.396), while the interest rate averages 5.15% (SD = 0.944). The relatively low dispersion of these variables suggests stable macroeconomic conditions throughout the observation period. In contrast, stock prices display a mean of IDR 1,420.910 and a

standard deviation of 2,298.791, indicating considerable variation among the sampled companies.

Table 2. Panel Data Model Selection Test

Test Type	Statistical Results	Probability	Selected Model
Chow Test	27.087	0.000	FEM
Hausman Test	0.000	1.000	REM
Lagrange Multiplier (LM) Test	552.598	0.000	REM

Note: Fixed-Effects Model (FEM), Random Effects Model (REM)

The results of the model selection procedures in Table 2 demonstrated that the Random Effect Model (REM) provided the best fit among the available panel data models. Consequently, the analysis of both the main effects and moderating effects was carried out using REM. Nevertheless, a set of diagnostic examinations was first performed to ensure the validity of the model assumptions before estimating the regression equation.

Table 3. Diagnostic Test Results

Test	Variables/Indicators	Result	Conclusion
VIF	ROE (%)	1.116	Free of Multicollinearity
	EPS (IDR)	1.098	Free of Multicollinearity
	DER	1.015	Free of Multicollinearity
	Inflation (%)	1.055	Free of Multicollinearity
	Interest Rate (%)	1.056	Free of Multicollinearity
Heteroscedasticity	Probability	0.000	Heteroscedasticity Occurs
Cross-Sectional Dependence	Probability	0.056	Free of Cross-Sectional Dependence
Wooldridge	Probability	0.000	Autocorrelation Present

Note: Multicollinearity (VIF), Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

The results in Table 3 show that all VIF values are below the critical threshold of 10, indicating no multicollinearity. The cross-sectional dependence test also yielded safe results above 0.05. However, the results of the heteroscedasticity tests (Breusch-Pagan and White tests) as well as the Wooldridge test showed probability values < 0.05, indicating a violation of the assumptions of heteroscedasticity and autocorrelation in the initial REM model. To address these residual issues and ensure the validity of the estimates, this study applied the Robust Standard Errors (White Cross-section) method, as presented in Table 6.

Table 4. REM Panel Data Regression Output

Variables	Coefficient	t-Statistic	Prob.	Information
Constant	6.334	31.136	0.000	-
ROE (%)	0.019	5.054	0.000	Significant
EPS (IDR)	0.000	1.399	0.162	Not Significant
DER	0.059	2.353	0.019	Significant
Inflation (%)	0.034	1.905	0.057	Not Significant
Interest Rate (%)	-0.086	-3.207	0.001	Significant
F-statistic	8.994	-	0.000	Eligible Model
Adjusted R-squared	0.074	-	-	-

Note: Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

The estimation results obtained from the REM model are presented in Table 4. ROE positively influences stock prices ($\beta = 0.019$, $p < 0.001$), indicating that firms with higher profitability tend to receive more favorable market valuations; therefore, H1 is supported.

By contrast, EPS does not demonstrate a statistically significant relationship with stock prices despite its positive coefficient ($\beta = 0.000$, $p = 0.162$), leading to the rejection of H2. DER shows a positive and significant coefficient ($\beta = 0.059$, $p = 0.019$), supporting H3. Inflation has no significant direct effect on stock prices ($p = 0.057$), whereas interest rates are negatively associated with stock prices ($\beta = -0.086$, $p = 0.001$). The model explains 7.4% of the variation in stock prices (Adjusted $R^2 = 0.074$), implying that the remaining variation is attributable to factors outside the proposed model. In addition, the overall model is statistically significant, as indicated by an F-statistic of 8.994 ($p < 0.001$), thereby supporting H10.

Table 5. MRA Test: Mean-centered

Variables	Coefficient	t-Statistic	Prob.	Information
Constant	6.222	50.29	0.000	--
ROE*Inflation	-0.007	-0.801	0.468	Not Significant
EPS*Inflation	0.000	0.065	0.951	Not Significant
DER*Inflation	-0.005	-2.649	0.057	Not Significant
ROE*Interest Rate	-0.004	-0.593	0.585	Not Significant
EPS*Interest Rate	0.000	0.689	0.528	Not Significant
DER*Interest Rate	0.002	0.499	0.644	Not Significant

Note: Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

The MRA results in Table 5 show that all variable interactions have probabilities above 0.05. The interactions between inflation and ROE, EPS, and DER have significance values of 0.468, 0.951, and 0.057, respectively; therefore, hypotheses H4 through H6 cannot be accepted. A similar pattern is observed for the interest rate variable, where its interactions with ROE, EPS, and DER yield p-values of 0.585, 0.528, and 0.644, respectively; thus, hypotheses H7 through H9 are also rejected. This implies that inflation and interest rates do not act as moderating variables but rather as independent variables. To ensure the stability of the estimation results, a robustness check was conducted using the White Cross-section Robust Standard Error.

Table 6. Robustness Check (White Cross-section)

Variables	Main REM (Prob.)	Robust REM (Prob.)	Consistency
ROE (%)	0.000	0.021	Consistent
EPS (IDR)	0.162	0.086	Consistent
DER	0.019	0.011	Consistent
Inflation (%)	0.057	0.005	Inconsistent
Interest Rate (%)	0.001	0.013	Consistent
F-statistic	0.000	0.000	Consistent
Adjusted R-squared	0.074	0.074	Consistent

Note: Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

Table 6 compares the main estimation with the robust estimation results. Most variables retain the same significance level across both models, suggesting that the findings are generally robust to potential heteroscedasticity. Inflation is the only variable whose significance changes after applying the robust estimator, implying that its direct effect is sensitive to the estimation technique. Nevertheless, the overall consistency of the results indicates that the empirical model remains reliable.

Table 7. Endogeneity Check (TSLS)

Variables	Coefficient	Prob.	Conclusion
ROE (%)	-0.090	0.157	Exogenous
EPS (IDR)	-0.008	0.203	Exogenous
DER	0.087	0.106	Exogenous

Variables	Coefficient	Prob.	Conclusion
Inflation (%)	-0.007	0.832	Exogenous
Interest Rate (%)	-0.153	0.122	Exogenous

Note: Return on Equity (ROE), Earnings Per Share (EPS), Debt to Equity Ratio (DER)

As an additional test, an endogeneity check was conducted using the TSLS approach. Table 7 shows that all variables have probabilities above 0.05, indicating no significant endogeneity. This means that the relationships estimated in the research model can be considered relatively free from simultaneity bias.

DISCUSSION

The Effect of Financial Performance on Stock Price

The empirical evidence indicates that ROE is positively associated with stock prices, providing support for H1. This result is consistent with Spence's (1973) Signaling Theory, which argues that profitability disclosed through financial statements conveys favorable information regarding a firm's financial quality and future prospects. A higher ROE signals the efficient use of shareholders' equity to generate earnings, thereby strengthening investor confidence and increasing market valuation. This pattern appears particularly relevant in the post-pandemic period, during which financially resilient firms in Indonesia's financial sector received stronger market appreciation. Similar evidence has been reported by Putri et al. (2022) and Sharma et al. (2023), whereas Maulani and Riani (2021) documented an insignificant relationship. Putra et al. (2024) further emphasize that the influence of ROE on market performance may vary because investor sentiment, industry characteristics, and government policies can alter how profitability information is interpreted. Such differences across studies are therefore likely attributable to variations in research settings, observation periods, and market environments. Overall, the present findings reinforce the view that profitability remains a fundamental determinant of corporate market valuation.

The absence of a statistically significant relationship between EPS and stock prices indicates that H2 is not supported. Although EPS represents an important measure of corporate profitability, the evidence suggests that this indicator was not the dominant consideration for investors during the observation period. From the perspective of the EMH (Fama, 1970), publicly available earnings information is rapidly incorporated into market prices. Nevertheless, the 2021–2025 period was characterized by global monetary policy normalization, geopolitical tensions, persistent inflationary pressures, and slowing economic growth, creating an environment in which broader market conditions may have outweighed firm-level earnings information. This interpretation is further supported by Behavioral Finance, which argues that investment decisions are frequently shaped by behavioral biases and subjective risk perceptions rather than purely rational assessments (Barberis & Thaler, 2003). Under heightened uncertainty, investors are therefore more likely to prioritize market risk and future economic prospects than accounting-based indicators such as EPS. These findings are consistent with Juniarmita and Iwana (2025) but differ from the conclusions reported by Maulani & Riani (2021) and Sharma et al. (2023). Overall, the results suggest that improvements in EPS alone are insufficient to increase market valuation unless accompanied by stronger investor confidence in the firm's long-term performance and resilience.

The positive and statistically significant coefficient of DER provides empirical support for H3, indicating that leverage contributes positively to the market valuation of financial sector firms. This finding can be interpreted through the Trade-off Theory and the capital structure framework proposed by Modigliani and Miller (1963), which suggest that debt may enhance firm value when maintained at an optimal level because of its associated

tax advantages. However, this relationship should be interpreted within the institutional characteristics of the financial sector. Unlike non-financial firms, financial institutions rely heavily on debt-based funding as part of their normal operating activities. As explained by [DeAngelo and Stulz \(2014\)](#), high leverage is an inherent feature of banking and financial institutions rather than an indicator of excessive financial distress. In addition, third-party funds (DPK) collected from customers are recorded as liabilities, meaning that an increase in public deposits naturally raises total liabilities and the DER without necessarily increasing financial risk ([Rahma & Sutrisno, 2023](#)). Instead, higher leverage may reflect stronger public trust and a greater capacity to expand lending and financing activities. This interpretation is further supported by Prospect Theory, which suggests that investors do not always perceive higher leverage as unfavorable when it is associated with greater growth opportunities and expected returns ([Kahneman & Tversky, 1979](#)). Consequently, leverage in financial institutions may be interpreted as an indicator of expansion potential rather than merely a source of financial risk. These findings are consistent with [Puspitasari et al. \(2025\)](#) and [Ristiya et al. \(2024\)](#), although they differ from the evidence reported by [Alwyah & Arfatun \(2024\)](#) and [Maulani & Riani \(2021\)](#).

The Moderating Role of Macroeconomic Factors

The absence of an interaction effect suggests that inflation did not alter the way investors responded to ROE, EPS, and DER during the observation period. Accordingly, H4, H5, and H6 are not supported, indicating that inflation did not significantly weaken the positive effects of ROE and EPS or strengthen the effect of DER on stock prices. From the perspective of Investor Sentiment Theory, stock prices may respond more strongly to investor perceptions than to changes in conventional macroeconomic indicators. [Baker and Wurgler \(2006\)](#) emphasize that investor sentiment can significantly affect stock prices and may shift investors' attention away from traditional economic information. In the Indonesian financial sector, this may explain why profitability and risk management received greater consideration in investment decisions. The inflationary conditions during the study period provide additional context for this finding. Despite pressure arising from higher energy prices and disruptions in global supply chains, inflation in Indonesia generally remained within a relatively controlled range. Consequently, the changes in inflation may not have been sufficient to produce substantial shifts in investment behavior. This result differs from [Abid \(2025\)](#) and [Alwyah & Arfatun \(2024\)](#), but is consistent with [Rahmawati and Maharani \(2023\)](#), who reported no significant relationship between macroeconomic indicators and stock price indices in Indonesia. The mixed evidence indicates that the influence of macroeconomic variables on stock market movements may vary across variables and research settings. Thus, inflation neither strengthened nor weakened the relationship between financial performance and stock prices in this study.

Similarly, the absence of significant interaction effects indicates that interest rates did not materially alter investors' responses to ROE, EPS, and DER. Therefore, H7, H8, and H9 are not supported, indicating that interest rates did not significantly weaken the effects of ROE and EPS or strengthen the effect of DER on stock prices. One possible explanation lies in the response of financial sector firms to monetary policy. Adjustments in lending and deposit rates, together with asset-liability management, allow these firms to adapt relatively quickly to changes in interest rate conditions. As a result, movements in interest rates may not substantially change the way investors interpret corporate fundamentals. This result can also be viewed from the perspective of APT, which identifies interest rates as a systematic risk factor in asset pricing ([Ross, 1976](#)). However, the presence of such a factor does not necessarily imply a moderating effect on every fundamental-stock price relationship.

Behavioral Finance provides another explanation, as investor overconfidence may cause investment assessments to respond less proportionally to changes in economic information (Barberis & Thaler, 2003). Therefore, interest rate movements did not significantly strengthen or weaken the relationships between ROE, EPS, DER, and stock prices in this study. The finding is consistent with Amanda et al. (2023) but contrasts with Nuraini et al. (2025). Overall, the results indicate that during the observation period, inflation and interest rates did not play a significant moderating role in the relationship between corporate fundamentals and stock prices. These findings suggest that investors do not rely solely on changes in macroeconomic conditions when evaluating a company's prospects but also consider internal corporate information.

Model Evaluation

Finally, the overall model evaluation provides support for H10, indicating that ROE, EPS, DER, inflation, and interest rates simultaneously contribute significantly to explaining stock prices, although their combined explanatory power remains relatively limited. The relatively low explanatory power is consistent with the multifaceted nature of stock price formation. In this study, the Adjusted R-squared is 0.074, indicating that ROE, EPS, DER, inflation, and interest rates collectively account for 7.4% of stock price variation, while the remaining 92.6% is associated with influences outside the model. This proportion does not imply that the variables examined lack relevance; rather, it indicates that stock prices are also shaped by other factors not captured in the analysis. Wang et al. (2023) support this view by identifying market sentiment, trading volume, and market volatility as non-fundamental factors associated with financial sector stock prices, alongside macroeconomic conditions.

The limited explanatory power of the model may partly reflect the range of factors that contribute to stock price movements. Beyond the variables examined, investors may also respond to firm-specific and market-related information, including PBV, PER, company size, market capitalization, dividend policy, exchange rates, and liquidity. These considerations reinforce that a low Adjusted R-squared reflects the multifaceted nature of stock price formation rather than the lack of relevance of company fundamentals. Investment decisions may incorporate information from both internal company conditions and wider market and economic developments. The robustness analysis provides an additional consideration regarding inflation. After the White Cross-section Robust Standard Error was applied, the significance of inflation changed, suggesting that its direct effect on stock prices is sensitive to the estimation method. This sensitivity, however, does not affect the moderation result. The MRA analysis continues to show that inflation does not moderate the relationships of ROE, EPS, and DER with stock prices. Hence, the variation in the direct effect of inflation does not change its role as a non-moderating variable in the model.

Practical Implications

In practical terms, the research findings indicate that investors need to consider a company's fundamental performance, particularly profitability and capital structure, as a key factor in making investment decisions in the financial sector, without neglecting broader market and macroeconomic conditions. For company management, the findings underscore the importance of maintaining strong fundamental performance and sound financial management, as changes in inflation and interest rates have not been shown to alter the relationship between company fundamentals and stock prices. For policymakers, these results highlight the importance of maintaining inflation and interest rate stability, as well as the credibility of monetary policy, to support a conducive investment climate. Meanwhile, for future research, the model's low explanatory power indicates the need to consider additional variables including firm-specific factors, market

factors, and other macroeconomic factors to provide a more comprehensive explanation of stock price variations.

CONCLUSION

A different picture emerges when the estimated relationships are considered at the predictor level. ROE and DER exhibit positive and statistically significant effects on stock prices, while EPS remains insignificant. Nevertheless, the five variables are jointly significant in explaining stock prices. The MRA findings do not support a moderating function for either inflation or interest rates in the relationships involving ROE, EPS, and DER. From an investment standpoint, the results suggest that profitability and capital structure may receive greater attention from investors during uncertain economic conditions, while EPS and macroeconomic indicators alone may not be sufficient to explain stock price movements. The robustness analysis shows some sensitivity in the direct inflation effect because its significance changes under different estimation procedures. Importantly, this sensitivity does not carry over to the moderation analysis, where inflation remains non-significant across the tested models.

LIMITATION

Several aspects of the research design should be considered when interpreting the findings. The explanatory variables were limited to ROE, EPS, and DER, complemented by inflation and interest rates as macroeconomic factors, while the analysis covered financial sector companies during 2021–2025. In addition, stock prices were represented by closing prices without adjustments for corporate actions, including stock splits, reverse stock splits, rights issues, and changes in shares outstanding. Such events may affect the observed stock price and consequently the analysis. Other determinants that were not incorporated into the model, including investor sentiment, valuation ratios, industry conditions, and additional macroeconomic factors, may also account for stock price movements. Future studies could broaden the model by incorporating firm-level fundamentals such as ROA, NPM, PBV, and firm size, while using adjusted closing prices to reduce the effects of corporate actions. Extending both the sector coverage and observation period may also provide a broader view of the factors associated with stock prices.

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DECLARATION OF CONFLICTS OF INTEREST

The authors have declared no potential conflicts of interest.

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ABOUT THE AUTHOR(S)

1st Author

Tia Khoerunnisa is a student in the Bachelor of Management program at the Faculty of Economics and Business, University of Singaperbangsa Karawang. She has an educational background in management and academic interests in financial management, particularly digital finance and risk management. Throughout her studies, she has been active in academic activities, scholarly writing, and various academic competitions. She has experience writing scholarly articles in the field of management and has won awards in academic competitions. She is also a recipient of the 2025 Pertamina Foundation Sobat Bumi Scholarship for her academic achievements and social contributions.

Email: 2310631020074@student.unsika.ac.id

ORCID: <https://orcid.org/0009-0005-8860-0039>

2nd Author

Dr. Nunung Nurhasanah, S.E., M.Sc., is a lecturer and assistant professor at the University of Singaperbangsa Karawang. She earned her Bachelor of Economics (S.E.) in Financial Management from Muhammadiyah University of Yogyakarta in 2007, her Master of Science (M.Sc.) in Financial Management from Gadjah Mada University in 2009, and her Ph.D. in Islamic Economics and Finance with a concentration in Sharia Banking from Trisakti University in 2015. His research interests include financial performance, financial ratio analysis, stock prices, and banking. He has academic experience and scientific publications in the fields of management and finance, including research on the impact of financial ratios on stock prices, financial performance, and firm value.

Email: nunungnurhasanah@feb.unsika.ac.id

ORCID: <https://orcid.org/0009-0006-4007-1489>

3rd Author

Liya Megawati, S.E., M.M. is a lecturer at the University of Singaperbangsa Karawang. She earned her Bachelor's degree in Management from the University of Singaperbangsa Karawang in 2011 and her Master's degree in Management with a concentration in Financial Management from the same university in 2016. Her research interests include financial management, capital markets, investment, stock prices and returns, financial performance, and macroeconomic factors. She also serves as a supervisor of the Capital Market Study Group of the Indonesia Stock Exchange at the

University of Singaperbangsa Karawang. Her academic work focuses particularly on the interaction between corporate financial performance, capital market dynamics, and macroeconomic conditions.

Email: liya.mega@fe.unsika.ac.id

ORCID: <https://orcid.org/0000-0001-9936-1356>